S. HRG. 103-571

S. 1945, THE MARITIME ADMINISTRATION AUTHORIZATION ACT FOR FISCAL YEAR 1995

HEARINGS

BEFORE THE

SUBCOMMITTEE ON THE MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

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S. 1945, THE MARITIME ADMINISTRATION AUTHORIZATION ACT FOR FISCAL YEAR 1995

MONDAY, APRIL 25, 1994

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The committee met, pursuant to notice, at 10:00 a.m. in room SR–253, Russell Senate Office Building, Hon. Ernest F. Hollings (chairman of the committee) presiding.

Staff members assigned to this hearing: Harold J. Creel, Jr., senior counsel, and Randolph H.M. Pritchard, professional staff member; and John A. Moran, minority staff counsel.

OPENING STATEMENT OF SENATOR HOLLINGS

The CHAIRMAN. Good morning. The committee will come to order.

Forty years ago, there were 1,271 U.S.-flagged privately owned commercial ships. And there are today only 350 such ships, with less than 130 of them engaged in international trade. Thirty years ago we had 50,000 seafaring jobs; today there are less than 10,000.

In 1947, U.S.-flagged commercial ships carried 60 percent of all products imported into or exported from this country. And today, they carry just a little over 4 percent of that cargo.

More threatening, of course, are the proposed moves by American President Lines and Sea-Land. The two largest U.S.-flagged container ship operators are petitioning the Secretary of Transportation to reflag a substantial portion of their fleets. And Lykes Brothers, which has been in business over 100 years, has begun the transition to foreign-flag status.

And the outlook is not very promising in that the ODS contracts will not be renewed after 1997, when they expire. And of course, cargo preference is declining due to a reduction in U.S. foreign aid and a reduction in the U.S. military presence worldwide and, of course, increasing attacks by opponents on the program itself in the Congress.

So, as the old sheriff said in that Dodge ad, "We are in a heap of trouble."

The bill submitted by the administration provides, of course, for 52 liner vessels, a $1 billion program over 10 years. It has been introduced also on the House side. And it might be noted, of course, that it is a revenue measure and should originate in the House. We are only now trying to anticipate and have these hearings and have a bill ready on the floor so that when they do pass the administration's bill or some bill with revenue in it, that we can treat it adroitly.

Now, what happens is that they have passed H.R. 2151 by a vote of 347 to 65 back in November. That authorized $1.2 billion in operating subsidies, but there was no way to pay for it. And they also provided for the assistance to the shipyards in the series transition payments. But they did not provide any way to pay for that. So, that bill has been held up.

But we are considering our bill here this morning in the light of what the House has already passed and enacted. And in the light that the House has also introduced the administration's bill, I think we can get strong support in both Houses for the administration bill. The big question and difference is going to be the money—how to pay for these things and whether or not we can even do better with even more vessels or whether or we are going to be able to take care of the shipyards in any fashion. I will insert my prepared statement into the record at this point.

[The prepared statement of Senator Hollings follows:]

PREPARED STATEMENT OF SENATOR HOLLINGS

I welcome Secretary of Transportation Peña to the committee's hearing today regarding the administration's proposal for revitalizing the U.S. merchant marine. The proposal before the committee is S. 1945, which I introduced on March 17, 1994, by request of the administration.

Mr. Secretary, the President and you have taken a giant step toward addressing the loss of this vital U.S. industry. As many of my colleagues know, I have been concerned that we not adopt a reform program that is just words—we have to find a way to pay for the program. The administration's proposal achieves that through tonnage fees, and we will consider that suggestion carefully.

In "The Men of the Merchant Service," published in 1900, Frank Bullen wrote of the American Merchant Marine that:

> The inventive genius of America will surely find some way of recreating for herself a splendid mercantile marine. I cannot think that she will always be content to see all her vast carrying trade overseas in the hands of foreigners. At present, it seems to be evident—to all except the average American—that such efforts are foredoomed to failure. Only one thing is required for the rehabilitation of the American mercantile marine: that those along her seaboard shall turn their earnest attention to the possibilities of money-getting that there are in ship-owning and ship-sailing. Then, they will insist upon some reasonable laws being passed that shall help, not hinder, the expansion of American seatraffic.

These words are even more true today than when they were written nearly 100 years ago. As was the case at the beginning of the century, the average American today is not aware of the fragile state of the merchant marine. It is so unfortunate that today all but 4 percent of our carrying trade is now in the hands of foreigners.

I de not believe that the industry is "foredoomed," though it will take a mighty effort, as you know, Mr. Secretary, to bring the industry back from the brink.

The time has come for us to get on with the business of enacting reform. It is time to atone for our many years of neglect, and by our combined efforts to show that we have finally awakened to the fact that in our mercantile marine we possess a magnificent heritage. Those of us in Government are not solely responsible for rebuilding the merchant marine, however. A serious responsibility rests on the shoulders of the industry itself.

We are anxious to hear Secretary Peña's testimony on how to restore the position of our merchant marine.

The CHAIRMAN. Senator Stevens.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. I am pleased to see these proposals from the administration. As a resident of the one State that is still served totally by U.S.-built, manned, and operated ships, I want to find out what these proposals are going to do to our maritime industry. And I am not clear yet on that. And so I am happy to be here and

to see if we can get some answers along the line of what happens to the one State that is paying for almost 100 percent of the Jones Act Fleet.

The CHAIRMAN. Very good. Senator Breaux.

OPENING STATEMENT OF SENATOR BREAUX

Senator BREAUX. Thank you very much, Mr. Chairman. I thank you particularly for chairing this hearing. I think it gives an indication of the importance of this measure to the Commerce Committee and, indeed, to the whole country.

I am very pleased that our leadoff witness will be the Secretary of the Department of Transportation, Secretary Peña, and the head of the Maritime Administration, Admiral Herberger, accompanying the Secretary. It really indicates that this is an important point that we have reached in the question of maritime reform, which we have worked on for so long.

It is very pleasing to me to have a bill that has been submitted by the administration after all of these years of working with our Republican colleagues. I would stress that it always has been a bipartisan effort. Secretary Card, prior to Secretary Peña's effort, was very aggressive in trying to lay the framework for where we are today.

And, Mr. Secretary, at your confirmation hearing I remember you giving a commitment at that time to be actively involved. And I can say that you have been actively involved. And the result of that involvement is the bill that we have. It is not perfect. No one ever would say that about any legislation or proposals, but it is a major start.

And particularly, I am very, very pleased that it has a funding source. It is easy, as the chairman pointed out, to draft a bill to do something, but if you do not have a way of paying for it, it is generally not worth the paper it is printed on. It is a good idea, but it is not a functional idea. And so what you have is a bill from the President, which I think, as always, we can generate bipartisan support on.

I know, for years, working with Senator Stevens and Senator Lott on the Republican side, to try and bring about legislation, we have been able to work together. And, with the chairman's leadership, I am very confident.

The disturbing thing that I find that is still lacking is the total absence of participation by the Department of Defense with regard to the question of support for a U.S.-flagged maritime industry. Almost all of the premises that we deal with in the Commerce Committee or in Congress on the House said for years as to why we need a maritime industry, it is always supplemented by the statement that we need it because it is important to the national security of the United States.

If that is true, the question must be asked as to why the Defense Department is not willing to participate financially. If national security is the main reason why we need this type of a program, then they should also be at the table.

The program does not exist to make money for private companies. The program exists so that private companies can exist to be available in the time of a national emergency. And so, it is disturb-

ing to me—and I am sorry I am taking so long—but the Defense Department spent $1 billion to convert five ships—five foreign-built ships I might add—that are being converted to go into their sealift capacity needs.

Well, that is $5 billion for five ships. This program is $1 billion for 10 years, to give us 52 ships, which is not enough. So, I think that what we see here is the Defense Department not being willing to participate in the process. And yet, when they do try to do something to meet their needs, I think they do it in a very wasteful and inefficient manner.

This is a better way to do it, and we can get more.

And I thank the Secretary for being with us and the chairman for having this hearing. I would like to insert my prepared statement in the record at this point.

The CHAIRMAN. Hearing no objections, so ordered.

[The prepared statement of Senator Breaux follows:]

PREPARED STATEMENT OF SENATOR BREAUX

Mr. Chairman, first of all, thank you for scheduling this hearing. Your support of the maritime industry and leadership in the reform effort has been essential to our getting as far as we have on this issue.

Today is a very important day for the Committee and for the U.S. maritime industry. The fact that you are chairing today's hearing and that Secretary Peña is testifying, underscores its importance.

President Clinton has sent us a maritime reform bill that Bill go a long way toward saving our American shipping industry and setting it back on the right track. It is not a perfect bill. But it is a significant accomplishment. The imperfections, I believe we can overcome. Importantly, the bill comes to us with a funding source that will meet the budgetary requirements by which we are bound.

We are fortunate that in attempting to formulate a maritime reform bill, over the years, we have had bipartisan support. The efforts of this Administration have benefited by the efforts of the previous Administration which we supported as well. Senator Lott, our ranking member on the Subcommittee, and I have held hearing after hearing on this issue and have worked closely to try to get a bill to the Senate Floor. I am confident that we can do just that this year.

The one thing that continues to bother me about this, and previous reform efforts, is the lack of funding from the Defense Department. All of the ships that participate in this program will be at the beck and call of the military. Yet the Department of Defense has not provided one dime of funding for any of them. They had rather spend $1 billion in taxpayers money to renovate 5 foreign-flag ships than to contribute to a program that will provide working ships with working mariners that will be available to serve when needed. One billion dollars is the cost of the Administration's entire reform program—support for 52 ships for 10 years! To use that amount of money to refurbish five ships when you could get another 52 ships for the same amount is, in my opinion, a waste of resources.

Secretary Peña we are very pleased to have you with us today. From the very beginning, you have shown strong support of the American merchant marine. In fact, at your confirmation hearing you indicated that maritime reform was one of your top two priorities. Since then you have worked tirelessly to get a maritime reform bill through the Administration. While there were a few moments when it looked as though the effort might fail, you stuck with it and prevailed in the end. We appreciate your determination.

We look forward to working with you in moving maritime reform legislation through Congress this year.

The CHAIRMAN. Thank you, Senator Breaux. The committee is very pleased to have the Secretary of Transportation, Secretary Peña, and the Maritime Administrator, Admiral Herberger. We welcome you both.

And, Mr. Secretary, we would be delighted to hear from you, sir.

STATEMENT OF FEDERICO PEÑA, SECRETARY, DEPARTMENT OF TRANSPORTATION; ACCOMPANIED BY ALBERT J. HERBERGER, VICE ADMIRAL (RET.), ADMINISTRATOR, MARITIME ADMINISTRATION

Secretary PEÑA. Thank you very much, Mr. Chairman and members of the committee. I also want to thank you, Mr. Chairman, for having this hearing and for your leadership on this issue for so many years—and for the committee's leadership on this issue.

I echo the comments made by the members about the joy that I hope we feel today about at long last having legislation with a funding piece to it, and hopefully a real opportunity to get it passed this year.

If there is any message I would like to leave with the members of the committee today, in addition to discussing the details of the legislation, it is my hope that we can get it done this year. We have been at this for some time. Previous administrations have tried it. I think the opportunity is right now. And if we can do it this year, we could at least put this issue to bed and move on to other issues.

I also want to acknowledge the presence of Admiral Herberger. Those of you who have had an opportunity to meet the Admiral in the past know about his outstanding contributions to our country. We are very delighted to have him serve in this capacity; he has been extraordinarily helpful in fashioning this legislation. To the extent there are some questions I cannot answer, he will be assisting me this morning.

Mr. Chairman and members of the committee, I cannot imagine in the year 2005 or 2010 our country waking up one morning and recognizing that there are no longer any U.S.-flag vessels either importing or exporting products and goods for our country. This is an industry that is unfortunately largely out of sight, unlike the airline industry, for example, where we all fly airlines and recognize the importance of having U.S. carriers.

If you were to ask the average American how they would feel if in the year 2005 there were no longer any U.S.-flag airlines, I think people would be shocked and troubled by it from a domestic competitive perspective and also a domestic security perspective.

For that reason, we have worked very hard to get this legislation through. We believe it is absolutely critical that this Nation continue to have a U.S.-flag fleet, so that we are not left to the whims of foreign-flag vessels some time in the next century, as we continue to be more involved in importation and exportation.

The administration wants to set a new course for America's merchant marine, one that will enhance our competitiveness into the 21st century.

Let me emphasize that the administration has proposed separate programs for two very important maritime industries—the U.S. shipbuilding industrial base, which I will describe very briefly, and the U.S.-flag fleet, which is the legislation before you today.

The President, last year, announced a five-point shipbuilding initiative, which will strengthen U.S. shipyards and move them toward improved competitiveness in the international marketplace.

Regarding the Organization for Economic Cooperation and Development negotiations to eliminate unfair foreign shipbuilding subsidies, we have received a summary text of the shipbuilding agree-

ment prepared by the chairman of the shipbuilding negotiations. The U.S. delegation has agreed to a May meeting based on that recent text and contingent on our assessment that we actually could conclude an agreement at that time.

If these efforts fail, Mr. Chairman and members of the committee, we will consider support for the shipbuilding trade reform bills, S. 990 and the revised House bill 1402.

The President's shipbuilding initiative, announced last fall, also includes title XI funding of about $150 million, supporting approximately $1.5 billion in shipbuilding activity. That is an extraordinary amount of commercial activity, which I think will be quite helpful to the shipbuilding industry.

The Department of Transportation's fiscal year 1995 budget request supports this initiative with a $50 million title XI request to implement the shipbuilding program.

The Department is also working with the Advanced Research Project Agency, ARPA. We became a member last year, joining the five agencies which have traditionally made decisions there—and industry, through MARITECH, to improve commercial competitiveness. The President's shipbuilding initiative includes $220 million over 5 years for research and development to accelerate technology transfer and to process change.

In addition to the above-mentioned funding request, the President's shipbuilding plan will expand Government activities to assist marketing efforts for U.S. shipyards and to revise regulations that impose unnecessary burdens on the shipbuilding industry.

We believe these five steps will help address the immediate and long-term concerns of this very important industry.

Our second initiative, the Maritime Security and Trade Act, guarantees the continued existence of a fleet of privately owned U.S.-flag ships in commercial service, crewed by skilled American civilian seafarers and owned by U.S. citizens.

This legislation is designed to maintain a modern American merchant fleet that will ensure a continuing American presence in the transportation of our international commerce and provide sealift for national emergencies.

As the members of the committee know, a comprehensive revitalization of maritime policy for the U.S. merchant marine has been needed for many, many years.

As Senator Breaux stated, he has spent many years on this subject and we very much appreciate and applaud his leadership.

U.S.-flag carriers have been the leaders in the development of technological innovations, such as containerization, double-stack railcars, specialized containers, electronic equipment identification, satellite tracking—all of which have formed the basis of the best intermodal transportation system in the world. As a result of intermodal transportation innovations pioneered by U.S.-flag carriers, U.S. manufacturers, and the rest of our industrial and agricultural sectors benefit from a seamless transportation system.

This means lower cost not only for transportation but also for warehousing, inventory, insurance, and damage claims.

The American public, as consumers of imports and producers of exports, are the primary beneficiaries of this efficient intermodal system.

The administration bill proposes a 10-year maritime security program which would provide total funding of $1 billion—approximately $100 million a year—to support U.S.-flag liner vessels and our international commercial trade. To be eligible for the program, U.S. operators would be required to keep vessels active in foreign commerce under the U.S. flag.

Commercially and militarily useful ships would be selected for this program as determined by the Department of Transportation after consultation with the Department of Defense. U.S.-flag ships entering the program would generally be required to be 15 years of age or less. Recently acquired liner ships from foreign sources would be allowed if 5 years of age or less.

Under this program, ship operators would receive $2.5 million per ship per year through fiscal year 1997, for the first 3 years, decreasing to $2 million per ship per year in fiscal year 1998 to the end of the program in fiscal year 2004.

The cost of this program is substantially less than the current Operating-Differential Subsidy Program. The current average cost per liner ship in the ODS program is about $3.7 million per year. The $2.5 million per ship cost in the first 3 years of our new program represents a 33-percent reduction per vessel.

The reason I want to emphasize that point, Mr. Chairman and members of the committee, is because there have been suggestions that we are not trying to bring reform to this area, and that we are not trying to assist and encourage the industry to be truly self-sustaining. We believe this is a step in that direction.

The lower costs in the Maritime Security Program are possible with newer and more efficient ships. We anticipate that the flat payments outlined above will encourage the carriers to reduce their operating costs. The new program would support approximately 52 ships at an average total cost of about $100 million per year, instead of the former program's cost of over $200 million per year.

This proposal will also ensure that U.S.-flag ships would remain available to meet national security requirements. Participants would be required to make their ships and other commercial transportation resources available to the Government in time of national emergency or when decided by the President to be in the national interest.

The commercial transportation resources to be provided would include ships, capacity, intermodal systems or equipment, terminal facilities, and management services. This infrastructure provided an intermodal pipeline during the Persian Gulf conflict, moving critical supplies on commercial container ships in door-to-door service. In time of need, therefore, the United States will have the finest intermodal sealift support available in the world.

To move toward more competitive shipping rates for the carriage of preference cargoes, this legislation would make newer vessels eligible to carry preference cargoes. In addition to commercial vessels built in the United States, liner vessels acquired outside the United States that are less than 5 years of age and bulk cargo vessels delivered after January 1, 1993, would be immediately eligible for these cargoes if registered under our flag.

Another provision permits U.S.-flag line haul vessels, in conjunction with foreign-flag feeder vessels, to be eligible for these cargoes.

These provisions support more efficient operations under our current cargo preference laws, which of course will remain in effect.

This legislation also provides flexibility for participants in the last years of the existing ODS program. They may keep their ships in the ODS program until the current contracts expire, or they may apply to include these or other ships in the Maritime Security Program.

Applications to renew or extend current ODS contracts would not be considered.

The competitiveness of the U.S.-flag merchant fleet would be enhanced by enactment of this bill, because all operators joining the new program would be deregulated, and trade route and service restrictions in the current ODS program would be eliminated. Both MSP participants and the ODS operators would be permitted to operate foreign-flag feeder vessels in U.S. foreign trade.

In addition, the administration's proposal contains a specific plan to pay for this maritime revitalization program. To do this, we propose an increase in the existing vessel tonnage duty. The duty was created in 1790 by the 1st Congress and is assessed on a vessel's net registered tonnage, or NRT, a universal measure of cargo capacity. Almost all vessels entering U.S. ports from foreign ports pay this fee.

If a ship enters the United States from a nearby Western Hemisphere foreign port, the fee is 9 cents per NRT. If its last call was outside of that area, the fee is 27 cents per NRT.

Our proposal is to increase this two-tiered fee by 15 and 44 cents, respectively. Under current law, no fee is collected after a ship has made five calls in a year in U.S. ports. We propose retaining this practice, which has been effect since the 19th century.

Tonnage fees are deposited into the General Fund of the Treasury. In 1990, Congress increased the tonnage fee and directed that the increase be deposited into the General Fund as offsetting receipts for the Department in which the Coast Guard is operating and ascribed to Coast Guard activities. The tonnage fee currently raises approximately $63 million a year. The administration's proposed increase for the MSP would be treated similarly in our budget.

Today, our Coast Guard provides an estimated $800 million in services to ships of all nations for aids to navigation, search and rescue, vessel inspections, and many other activities.

We believe the fee increase will have no significant adverse impact on our foreign trade or any segment of our maritime international trade industries. Our analysis shows that about $1.50 will be added for an entire year to the cost of moving a 20-foot container. The added cost on a typical cruise ticket is 38 cents. Tankers would pay about one additional penny per barrel of oil. And increased fees for dry bulk cargo ships would amount to about 14 cents per ton.

The size of our foreign commerce and the vigorous growth we see ahead means this increased duty would not have a harmful effect on ports, shippers, or companies, and only a negligible impact on consumers.

The 1990 increase in tonnage duties that Congress initiated has not adversely affected trade. In fact, foreign trade has increased since 1990.

This is the President's proposal to maintain a U.S.-owned and citizen-crewed fleet of vessels available for economic and national security. As the President said when announcing this proposal, a modern merchant U.S.-flag fleet with skilled U.S. mariners will provide not only jobs and economic benefits, but also an important sealift capacity in times of national emergencies.

Along with the President, Admiral Herberger and I look forward to working with you to secure approval this year for this very important legislation to implement a long-awaited, comprehensive revitalization of the U.S. merchant marine.

Thank you very much, Mr. Chairman and members of the committee, and we would look forward to your questions.

[The prepared statement of Secretary Peña follows:]

PREPARED STATEMENT OF FEDERICO PEÑA

Mr. Chairman, I am very pleased to be here today, accompanied by the Maritime Administrator, Albert J. Herberger, to support the Administration's Maritime Security and Trade Act of 1994, S. 1945. I believe strongly in what we are trying to accomplish, and I appreciate the privilege of testifying before this Subcommittee. I bring with me the President's support for our efforts to secure America's future as a maritime nation.

At the outset, I want to thank you for your leadership on this important issue and to thank Chairman Hollings for introducing the President's proposal.

Maritime revitalization has been a top priority of mine ever since becoming Secretary of Transportation, and I look forward to working with you to secure its passage this year.

The Administration wants to set a new course for America's merchant marine, one that will enhance the competitiveness of this industry into the 21st century.

Let me emphasize that the Administration has proposed separate programs for two vital maritime industries—the United States shipbuilding industrial base and the United States-flag fleet.

President Clinton's comprehensive five-point shipbuilding initiative will strengthen U.S. shipyards and move towards improved competitiveness in the international marketplace.

Regarding the recent Organization for Economic Cooperation and Development (OECD) negotiations to eliminate unfair foreign shipbuilding subsidies, we have received a summary text of a shipbuilding agreement prepared by the Chairman of the shipbuilding negotiations. The U.S. delegation has agreed to a May meeting based on that text, contingent on our assessment that we actually could conclude an agreement at that time. If these efforts fail, we will consider support for the shipbuilding trade reform bills, S. 990 and the revised House bill, H.R. 1402.

The President's shipbuilding initiative announced last fall also includes Title XI funding of about $150 million, supporting approximately $1.5 billion in loan activity. The Department of Transportation's Fiscal Year 1995 budget request supports this initiative with a $50 million Title XI request to implement this shipbuilding program.

The Department is also working with the Advanced Research Projects Agency (ARPA) and industry through MARITECH to improve commercial competitiveness. The President's shipbuilding initiative includes $220 million over 5 years for research and development to accelerate technology transfer and process change.

In addition to the above mentioned funding requests, the President's shipbuilding plan will expand government activities to assist marketing efforts for U.S. shipyards, and revise regulations that impose unnecessary burdens on the shipbuilding industry.

President Clinton's second maritime initiative, the Maritime Security and Trade Act, guarantees the continued existence of a fleet of privately owned, commercial United States-flag ships crewed by skilled American civilian seafarers and owned by United States citizens. This legislation is designed to maintain a modern American merchant fleet, ensure continuing American presence in the transportation of our international commerce, and provide sealift for national emergencies. As the

members of this Subcommittee know, a comprehensive revitalization of maritime policy for the United States merchant marine has been needed for many years.

United States-flag carriers have been the leaders in the development of technological innovations, such as containerization, double-stack rail cars, specialized containers; electronic equipment identification, and satellite tracking, all of which has formed the basis of the best intermodal transportation system in the world. As.a result of intermodal transportation innovations pioneered by United States-flag carriers, U.S. manufacturers and the rest of our industrial and agricultural sectors benefit from a seamless transportation system. This means lower costs—not only for transportation but also for warehousing, inventory, insurance and damage claims. The American public, as consumers of imports and producers of exports, are the prime beneficiaries of this efficient intermodal system.

The Administration's bill proposes a ten-year Maritime Security Program (MSP), which would provide total funding of $1 billion, approximately $100 million a year, to support U.S.flag liner vessels in our international commercial trade. To be eligible for the MSP, U.S. operators would be required to-keep vessels in active foreign commerce under the United States flag. Commercially and militarily useful ships would be selected for this program, as determined by the Department of Transportation, after consultation with the Department of Defense.

United States-flag ships entering the program would bo generally required to be 15 years of age or less; recently acquired liner ships from foreign sources would be allowed if five years of age or less. Under this program, ship operators would receive $2.5 million per ship per year through fiscal year 1997, decreasing to $2.0 million per ship per year in fiscal year 1998 to the end of the program in fiscal year 2004.

The cost of this program is substantially less than the current operating-differential subsidy (ODS) program. The current average cost per liner ship in the ODS program is $3.7 million per year. The $2.5 million per ship cost in the first three years of the new program represents a 33 percent reduction per vessel. The lower costs in the Maritime Security Program are possible with newer, more efficient ships a We anticipate that the flat payments outlined above will encourage the carriers to reduce operating costs. The new program would support approximately 52 ships at an average total cost of $100 million per year, instead of the former program's costs of over $200 million per year.

This proposal also ensures that U.S.-flag ships would remain available to meet national security requirements. Participating ship operators would be required to make their ships and other commercial transportation resources available to the Government in time of national emergency, or when decided by the President to be in the national interest. The commercial transportation resources to be provided would include ships, capacity, intermodal systems or equipment, terminal facilities, and management services. This infrastructure provided an intermodal pipeline during the Persian Gulf conflict, moving critical supplies on commercial containerships in door-to-door service. In time of need, therefore, the United States will have the finest intermodal sealift support available in the world.

To move toward more competitive shipping rates for the carriage of preference cargoes, this legislation would allow newer vessels to be eligible to carry preference cargoes. In addition to commercial vessels built in the United States, liner vessels acquired outside the United States that are less than five years of ago, and bulk cargo vessels delivered after January 1, 1993, would be immediately eligible for these cargoes if registered under our flag. Another provision permits United States-flag line haul vessels, in conjunction with foreign-flag feeder vessels, to be eligible for these cargoes. These provisions support more efficient operations under our current cargo preference laws, which remain in effect.

This legislation also provides flexibility for participants in the last years of the existing ODS program. They may keep their ships in the ODS program until the current contracts expire, or they may apply to include these or other ships in the Maritime Security Program. Applications to renew or extend current ODS contracts would not be considered, however.

The competitiveness of the United States-flag merchant fleet would be enhanced by enactment of this bill, because all operators joining the new program would be deregulated, and trade route and service restrictions in the current ODS program would be eliminated. Both MSP participants and ODS' operators would be permitted to operate foreign-flag feeder vessels in U.S. foreign trade.

In addition, the Administration's proposal contains a specific plan to pay for this maritime revitalization program. To de this, we propose an increase in the existing vessel tonnage duty. The duty initially was created in 1790 by the first Congress. The duty is assessed on a vessel's net registered tonnage (NRT), a universal measure of cargo capacity. Almost all vessels entering U.S. ports from foreign ports pay this fee. If a ship enters the United States from a nearby Western Hemisphere for-

eign port, the fee is nine cents per NRT; if its last call was outside that area, the fee is 27 cents per NRT. Our proposal is to increase this two-tiered fee by 15 and 44 cents, respectively. Under current law, no fee is collected after a ship has made five calls in a year in U.S. ports, and we propose retaining this practice, which has been in effect since-the late 19th century.

Tonnage fees are deposited into the general fund of the Treasury. In 1990, Congress increased the tonnage fee and directed that the increase be deposited into the general fund as offsetting receipts for the department in which the Coast Guard is operating. and ascribed to Coast Guard activities. The tonnage fee currently raises approximately $63 million a year. The Administration's proposed increase for the MSP would be treated similarly in our budget. Today, our Coast Guard provides an estimated $800 million in services to ships of all nations for aids to navigation, search and rescue, vessel inspections and many other activities.

We believe the fee increase will have no significant adverse impact on our foreign trade, or any segment of our maritime and international trade industries. Our analysis shows that about $1.50 will be added for an entire year to the cost of moving a twenty-foot container. The added cost on a typical cruise ticket is 38 cents. Tankers would pay about one additional penny per barrel of oil and increased fees for dry bulk cargo ships would amount to about 14 cents per ton.

The size of our foreign commerce and the vigorous growth we see ahead mean this increased duty should not have a harmful effect on ports, shippers or companies, and only a negligible impact on consumers. The 1990 increase in tonnage duties that Congress initiated has not adversely affected trade; in fact, foreign trade has increased since 1990.

This is the President's proposal to maintain a United States owned and citizen-crewed fleet of vessels available for economic and national security.

As the President said when announcing this proposal, "A modern merchant United States-flag fleet, with skilled U.S. mariners, will provide not only jobs and economic benefits, but also an important sealift capability in times of national emergency."

Along with the President, Admiral Herberger and I look forward to working with you to secure approval this year for this important legislation to implement a long-awaited, comprehensive revitalization of the United States merchant marine.

Thank you for giving me the opportunity to appear before you today. I will be glad to answer any questions you and the members of the Subcommittee may have.

The CHAIRMAN. Thank you very much. Admiral Herberger, would you like to make a statement at all? I know you support it.

Admiral HERBERGER. Fully, Mr. Chairman. I have nothing to add, at this point.

The CHAIRMAN. Well, we do appreciate your support and appearance here this morning.

Who opposes this, Secretary Peña?

Secretary PEÑA. Mr. Chairman, I am not certain that there is opposition, although I think some concerns have been raised.

There has been concern that the program is not as extensive as perhaps some had wished, and very candidly, as you know, Mr. Chairman and members of the committee, we have a budget that we are concerned about; so we felt that limiting the program to 52 vessels at a cost of $100 million per year was appropriate to get the job done.

You might hear from port operators and others that some shipments may be diverted from U.S. ports to, for example, Canadian ports. Our analysis indicates that diversion of cargo between the U.S. and Canadian ports is minimal. In fact, in the last several years we have seen about 3.5 to 4.5 million tons of U.S. cargo diverted to Canada and nearly 3 million tons per year of Canadian cargo diverted to the United States, so these are not large in number.

You may hear some concern, perhaps, from the bulk operators who feel that this legislation does not do enough for them. We have been very attentive to the concerns of the bulkers, and by allowing

some adjustments in this legislation I think we are assisting the bulkers.

You may also hear from shippers, who I think had been hopeful that we would include some issues of concern to them. We felt that this legislation had to address the immediate problem, and that is the foreign trade ship operating maritime industry.

I would not say that these parties are necessarily opposed. I would suggest that they are concerned and would like to see some adjustments in the legislation. Perhaps they will be testifying today or in the weeks to come.

The CHAIRMAN. Your answer indicates that you have given a lot of thought and done a lot of work. And looking at the bill itself, about 15 pages seem to take care of this group, that group, and some other line, and another line here and another line there. I guess that is necessary. It is not necessarily the best of legislation. But I guess it is necessary if we are going to change over and have any maritime left. So, I congratulate you and the administration on making some kind of proposal, and it is paid for, but expensive.

There seems to be some concern, as you indicate, that it is not extensive enough: 52 vessels. Suppose we increased it to 62, 72, how about 82 vessels? Would that upset the apple cart? I want to find out how fine tuned you think this is?

We would have to go up a consequent amount on the fees. Would that be too much on the fees or upset what they apparently have got worked out here so that we can get something passed? In that it is not extensive enough, you and I know we would like to have more than 52 vessels. Why did you cut it off at 52?

Secretary PEÑA. Mr. Chairman, we were trying to be somewhat consistent with our current program, and we think 52 is a critical number to get the job done.

But to answer your question as directly as I can, increasing the program beyond 52 ships depends on what funding source you would use to support the increase. If you had a much more significant increase in the tonnage duty there may be a greater concern by shippers.

This is a pay-go proposal, so we must find the offsetting revenues or cuts to pay for this. Senator Breaux alluded to the Defense Department, but we are all very nervous about looking in the Defense Department. I know the President has expressed that concern in the past.

We felt that this was the best proposal we could make at this time, and obviously the Congress is free to make adjustments.

The CHAIRMAN. Now, when you say the Defense Department, it seems like they would be in that school of give us more than 52 ships. They always want more. And they would say give me 82 vessels. Why would they have misgivings? And the way you are looking at the Defense Department, Senator Stevens and I have this problem and have had it over 20 years now trying with each Secretary. That is why we feel so warmly toward you, that you are finally moving forward and provided a way.

Andy Card did, but he never could get his own administration to pay for it so it never got anywhere. I think this can fly. But the Defense Department would be the ones that would say perhaps it is inadequate. We need more. And you are saying maybe if you got

more the Defense Department would have misgivings. I do not understand.

Secretary PEÑA. Mr. Chairman, I was alluding to the suggestion that had been made by others in the Congress that the Defense Department help pay for this program.

The CHAIRMAN. Yes, well excuse me. I think they should. I always have thought that.

What about the shipyards themselves, Mr. Secretary? As you know, the series transition payments of those built-in series in the shipyards, some of them come forward, as the House has already passed a provision for that, why not that provision in your bill?

Secretary PEÑA. Again, Mr. Chairman, we think our five-point shipbuilding program addresses the immediate and long-term concerns of the shipbuilding industry and, when we looked at this proposal and at the budget that we had available, we felt we could not include that provision.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. Thank you, Mr. Chairman. Thank you, Mr. Secretary and Admiral, for being with us. I applaud them for their real determination in fighting through the bureaucracy of any administration and just bringing the bill to the Congress with support for all of the various and divergent interests in the administration.

We have a bill that will cost $100 million a year for approximately 52 ships. I am firmly convinced, and I think the chairman indicated his general support for the concept, that we really need more than that. I think that your recommendation is restrained by the source of funding.

Let me ask you to comment on a concept that I and some others have been kicking around, and that is the amount of money that we spend on the Ready Reserve Fleet; that is, basically approximately 100 ships that are generally old, that are uncrewed, that are sitting in what we say is a reserve status. The request from the Maritime Administration this year for that program is $250 million, of which about almost $240 million—$237 million, actually—is for operation and maintenance, just to keep them there.

Of that approximately 100 ships there are probably about 48 that are really the type of breakbulk ships that you really need in the time of a national emergency. Could we not take some of those ships in that ready reserve and just get rid of them, sell them on the market, and then use the money that we would save to support an increase in the program that you are recommending today? Would that not be better, to add 40 or so ships to this program that would be modern, efficient, with a capable working crew every day? Is that not something that we need to be looking as a recommendation?

It is under Admiral Herberger's shop in the Ready Reserve Fleet. Can you give me some thought about that concept as a way of adding to the size of this program, which I think is absolutely critical?

Secretary PEÑA. Senator, let me attempt to give you an initial response and let me ask the Admiral to expand on my comments.

First of all, I think it is a creative idea. During the evaluation of this program over the last many, many months, a number of options were proposed within the administration. In fact, I think we

did propose something like what you have described to DOD and TRANSCOM in particular.

I can't speak for the Department of Defense or TRANSCOM, but suggest that the question be posed directly to the Defense Department. I know they are concerned mostly about surge capacity as opposed to sustainment, which the Maritime Security Program would support. While it is one idea, I am not prepared today to say whether the Department of Defense would support it.

Senator BREAUX. Bearing in mind under that proposal, Admiral Herberger, before you comment on it, that that would still retain about 20 of the breakbulk ships for the surge requirement that the Defense Department says they need, and then get rid of 28 that I do not think anybody thinks we need.

Admiral HERBERGER. Mr. Chairman, there are currently 48 breakbulk vessels in the RRF, and there have been discussions whether 28 of those vessels should be placed back into the NDRF, or sold or scrapped.

The Department of Defense is currently revalidating its mobility requirements. As part of another bottom-up review, and I know the issue of the composition of the RRF is going to be one of the key elements. We know that one of the issues is the number of breakbulk vessels that could be put into the NDRF by substituting commercial fleet for that capacity.

The issue is how much of the RRF needs to be roll-on/roll-off surge capacity, and how much would have to be the type of vessel such as in a commercial fleet for sustainment.

Senator BREAUX. I know that is the issue. What is your thought?

Admiral HERBERGER. I think it can be done. I think it can be done. The idea of using "hot" ships from the commercial fleet, which have full crews to the maximum is excellent. During Desert Shield and Desert Storm, we did not even activate a number of the breakbulk ships because of the time it takes to activate, load, and steam those ships.

I know it is one of the DOD strategic mobility issues being looked at.

Senator BREAUX. I thank you both for the comment.

Let me just ask one other question: The administration's proposal appears to limit the program's thrust to container ships, whereas the military have said well, we really have a need for the roll-on/roll-off and the LASH-type of vessels. How do you feel about us maybe, I guess, expanding the scope of the type of vessels that we would be looking at in order to meet what the military says they really need?

Admiral HERBERGER. We are looking for as much diversity as possible, including LASH vessels and heavy lift ships. Each year we learn more and more how useful containerships are, but we know that they will not be the only vessel type in the program. We really are looking for militarily useful vessels.

Senator BREAUX. OK. I have some questions that I would like to submit because I think it would be helpful in building the record, which we will submit.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Stevens.

Senator STEVENS. Well, Mr. Secretary and Admiral, let me just review a little history. I am sure you know it, but just to make sure that we understand where the Alaskans are coming from, I think that the cabotage act, was the second legislation of the 1st Congress. The cabotage law said that trade between ports in the U.S. trade could only be conducted on U.S.-built, U.S.-owned, U.S.-manned vessels.

At that time, of course, we did not have the superhighways, we did not have the airplanes, and we did not have the trains. So, in effect, all trade in the United States was supported by shippers and by consumers. As these other means of transportation developed, it has worked out that the only place in the United States today that is only served under the Jones Act of 1920 is Alaska.

We pay for maintaining, in effect, not only the shipbuilding trade but the ownership and the operation of the Jones Act domestic offshore fleet. Sea-Land and Tote have just filed a 6-percent increase in tariffs for Alaska. At the same time, the administration is proceeding with a plan, and I will support the plan, which will reduce tariffs for U.S. foreign trade.

Alaska's rates continue to go up, and I find that at times I have come to this committee and try to work out things that affect Alaska. Hawaii is different because most of the ships that serve Hawaii keep on going west into the Pacific. But, not with Alaska. Take our fish for instance. We have the first and second largest fish-landing ports in the United States—the largest one in the world is Dutch Harbor. And the bulk of that product shipped out of those ports goes overseas.

Do you know why it goes overseas? The cost of shipping it to the ports of the lower 48 is so much greater that it is cheaper to take our product to Asia and process it and bring it back into the United States. We continue to wonder why we do not enjoy the basic cost-efficiencies of the maritime industry. I do not oppose what you are doing. Alaskans do not oppose what you are doing. We applaud it, as the chairman said. We have been working for maritime reform for some time.

But why is it that there has been no consideration given to finding a way to reduce the rates to Alaska and at the same time maintain the U.S.-owned, U.S.-operated, U.S.-manned, U.S.-built fleets? Why can we not participate in a program that is designed basically for foreign trade? We are offshore. We do not have the advantage of Hawaii where shipping goes on into foreign ports, except for once instance. And even then, when we tried to bring Sea-Land vessels empty back by Dutch Harbor to pick up U.S. product to bring it to U.S. ports we were severely criticized and it was blocked.

Now, I think that it is time to put Alaska in the scheme of providing basic assistance for construction and for operation of U.S.-flag vessels, just like we want to do for other trades offshore. What is wrong with that, Mr. Secretary?

Secretary PEÑA. Senator, the Department and the administration continue to support the Jones Act, as a matter of principle.

Senator STEVENS. We are, too, Mr. Secretary. We do not oppose it. We want U.S. ships, but we do not know why Alaska has to pay disproportionately higher rates for them when it is a national pol-

icy that still applies to us but has no application to the rest of the country.

Secretary PEÑA. Senator, unfortunately when those rate increases are submitted, they go to the ICC.

Senator STEVENS. I know that.

Secretary PEÑA. We understand that the 6-percent increase you referred to earlier may be rolled back, and there has been discussion with some of the parties. Other than that, you are correct in the assessment of the application of this provision, and hopefully the ICC will be as mindful as possible about the concerns you have raised about rates.

Senator STEVENS. Mr. Secretary, respectfully, it is not the ICC and it is not your administration, it is all administrations have been myopic in looking at the impact of these shipping laws on the one area that is most affected by the Jones Act, and that is Alaska. I just do not understand why the construction subsidy and the operating subsidy should not apply to vessels serving Alaska if it helps every other offshore port we have got.

Now, I am not going to belabor it, but I would urge you to go back and take a look at it. I think of the jobs Alaska is losing because our fish go overseas for processing. I think of the jobs we are losing because our oil is subject to the restrictive provisions imposed by Congress at the time we passed the Pipeline Act. I would urge you to go back and take a look at it again. I intend to visit with you again, and again, and again on this subject.

People misunderstand us. They think we are against the Jones Act. We are not against the Jones Act—we would prefer to have U.S. ships dealing with our ports—but I do not think Alaska alone should have to pay for the Jones Act requirement of U.S.-built, U.S.-operated ships.

Let me shift over. You know, we mentioned that the military side of it before the revolution—and I am not talking about the one back in 1776, I am talking about 1986.

I was chairman of two subcommittees, the chairman of this, the Maritime Subcommittee, and the Defense Subcommittee, and from 1983 through 1986 each year, we earmarked $1 billion of defense money on the Defenses Subcommittee, hoping that this committee would follow through and pass legislation that would restore the old Eisenhower build-and-lease program. This was a concept of building ships with the defense money and then leasing them out to the private sector. Lease payments provided a revolving fund for vessel maintenance, and they were to be hot ships, Admiral. They were to be ours in the event of any emergency.

Now, Senator Inouye and I must have had scores of meetings with the shipbuilders, shipowners, and maritime unions. We never could get a bill through here because we could not get an agreement on how that program would impact the existing fleet, and the existing operators, and the existing unions.

Now, let me ask you the basic question. Do you have that agreement now?

Secretary PEÑA. No, we do not, Senator, and I must say that we have not had a recent discussion or reevaluation of that proposal. Let me have the Admiral add to that, Senator, if I may.

Admiral HERBERGER. There have been discussions within the defense circles of a build-and-charter program for militarily useful vessels, but it comes down, I think, in the final analysis, to how much funding would be required and whether funding is available within the National Defense Sealift Fund, now primarily earmarked for the new construction and conversion of sealift vessels. I think that this is a budget issue—how would you come up with the additional funds to support a build-and-charter type program for commercial vessels.

The CHAIRMAN. It was Sea-Land that opposed it. They wanted the business, if I remember correctly. Is that not right, Ted?

Senator STEVENS. There were two major lines, one on the east coast, one on the west coast, that opposed it. I suggest to you, Mr. Secretary and Admiral, that we still do not have the basic understanding we need in the industry itself to go into this unless we are just building ready reserve fleet that is not going to be used except for an emergency.

I think the CRAF program for the airlines demonstrated the validity of that approach during the Persian Gulf. If it were not for the CRAF program, we would have not been able to get our men and women in uniform to the Persian Gulf theater.

In terms of shipping, we had to turn to foreign owners and foreign operators to bring our freight into the Persian Gulf. We all know that. Now we are working on the assumption that we may be able to take care of two regional conflicts at the same time. That bottom-up review assumes that foreign shippers would be able to be available to us to support movement of U.S. supplies to sustain our troops and our operations abroad.

I think it is a real defect in our current plans of reducing our military not to have available an active, hot fleet through something similar to the CRAF program.

Now, you do not have this in your program. We do not have the agreement between those who would be affected by the entry of new ships. We did not have the objection from the airlines the CRAF program, and I do not know why we do not—cannot work it out with the maritime industry.

Admiral HERBERGER. Two points, Senator. Much of the effort is to add strategic sealift, that will be afloat and fully manned out on station. DOD will be adding anywhere from 8 to 15 Army prepositioned afloat ships.

Senator STEVENS. You are talking about preposition equipment. I understand that. But Admiral, those are not available for crisis in some other part of the world. Once you preposition equipment off Korea, it is not going to go to the Persian Gulf, and vice versa.

Admiral HERBERGER. The idea behind afloat prepositioning it is to quickly move equipment and supplies to whatever area would need them. Most of them are stationed around Diego Garcia, so they could swing either way.

Our 52-ship program is designed so "hot" ships would be available on short notice. The fundamental problem with build-and-charter is funding. If there were enough funding, build-and-charter might be good.

Senator STEVENS. I do not want to prolong this, but I would suggest that Congress put the money up three times. The money was

not spent, and the reason it was not spent was that there was no agreement within the industry as to how it should be spent.

I think you are going to run into the same problem that we did in 1983, 1984, and 1985. We could not get an agreement in the industry. I do not think you have it yet, as I understand it, and I think that should be our first task to help you get the agreement within the industry and get their support of not only your legislation but of the build-and-charter concept.

Thank you very much, gentlemen.

The CHAIRMAN. Senator Lott.

Senator LOTT. Thank you, Mr. Chairman. Thank you, Mr. Chairman for having this hearing, and I appreciate the work that you have done on this over the years, and the work of the distinguished Senator from Alaska.

I have enjoyed working with Senator Breaux as we have tried to get the proper attention directed to this problem, and you will recall, Mr. Secretary, when I met with you last year prior to your confirmation, this was one of the areas that I emphasized. Others have tried and failed, and I hoped you would pick up the cudgel and go forward. I want to commend you for the effort that you put into it.

Maybe this is not a perfect solution, but I think it is a long step forward, and I know that we did not get to this point without some real battles, because OMB of every administration says no, they do not want to do this, and of course you have got a resistance from the Defense Department.

We made a valiant effort in the closing hours of 1992 to get some sort of agreement, and we tried working with DOD, did not get very good response from the Secretary of the Navy or the Secretary of Defense. But we made the effort, and you are making it again, and I want to commend you for the effort that is underway.

I want to ask you some specific questions. Of course, I have a particular interest in shipbuilding. My State has a number of large and smaller shipyards. The administration proposal does not include—unlike the House bill, the series transition payment program or other similar provision to aid the U.S. shipbuilding industry. I am really worried about the survival of our shipyards and the jobs—120,000 jobs there. I know you are concerned about that. I know that was a part of your discussions.

Our shipyards have got to restructure if they are going to move from predominantly military into the commercial area. To do this, they are going to have to have some, at least temporary aid to deal with the gap between what it costs the U.S. yards and what it costs in foreign yards. There needs to be some sort of program to help in that effort.

Why was the shipbuilding industry basically left out of your proposal?

Secretary PEÑA. Senator, we have included the shipbuilding industry in a five-point program that was announced last year. Let me quickly review it. You are absolutely correct it did not include series transition payments. The President believes, and has stated publicly, that the shipbuilding industry is very important to our country and we do not want to lose it.

The first part of the five-part program is to ensure that we have a level playing field through the OECD. Those discussions are ongoing. There is another meeting scheduled later on this year.

Senator LOTT. If I could interrupt there, we have not had a lot of success there over the years in the previous administration or this one; is that not correct?

Secretary PEÑA. That is correct.

Senator LOTT. Do you have any reason to believe we might see some positive results there?

Secretary PEÑA. I never try to prejudge what will come out of the OECD discussions, but I can tell you we are waging a very tough fight, and we are making a very strong case for a level playing field. As I said earlier in my testimony, if we are not able to see much progress at the OECD talks, there are several bills that have been introduced and that the administration would be willing to consider in order to address that failure.

Senator LOTT. We would like very much for you to do that, and we do have some legislation to address that failure. I hope you will not wait interminably to take some action, or to work with us on some action.

Secretary PEÑA. I agree, Senator.

Second, through MARITECH, we are making millions of dollars available—$40 million in 1995, $50 million in 1996 through 1998—to help the shipbuilding industry get through this technology conversion. We recognize that our shipbuilding industry has to do much more to become technologically competitive with other countries, and I think that will be helpful.

Third, our Government will reduce or eliminate regulations that burden our shipbuilders, such as the Coast Guard regulations. We are working very hard to streamline regulations and reduce costs.

The fourth part is our title XI loan guarantee program. That will help finance $1.5 billion in loans for shipbuilding which I think is very helpful.

The last part is international marketing. This administration has a very different view about helping U.S. companies. I went to Saudi Arabia to meet with the king for 2½ hours to help the Boeing sale which Secretary Brown helped arrange. The Secretary made a phone call. We have a very different view as Cabinet Members, and as an administration, in supporting U.S. industry. We are going to do whatever we can to help U.S. transportation industries.

Senator LOTT. Have you done anything comparable to that with regard to shipbuilding?

Secretary PEÑA. We have not yet started, and perhaps the Admiral can take up this discussion, but when an opportunity is available, I am very happy to do it. I have done it already, and will continue to do it. You are absolutely correct, Senator, the one piece we did not include in the shipbuilding initiative was a series transition payment.

Senator BREAUX. Can I interrupt on that, and you may not know it, they have done it. They did it in the Textron ship sale to Japan, where for the first time they have announced that we will be buying U.S.-built military vessels built in New Orleans.

Senator LOTT. That is why I did not know it. [Laughter.]

Admiral HERBERGER. We are beginning to get interest from foreign entities to build ships in the United States for export. The fact that the Government is willing to join in and support both marketing and the title XI program is a key element. We are encouraged by the early discussions.

Senator LOTT. All of that is good, or sounds good, and I know the intentions are good. We will have to see whether we get the results, but none of it really addresses the short-term bridge to get the U.S. yards competitive.

I wonder, could the administration support an amendment adding a temporary subsidy such as the series transition payments to the bill?

Secretary PEÑA. Senator, that would depend on how it is funded.

Senator LOTT. That is what the House has in their package now on the Coast Guard. You mentioned that, but U.S. shipyards are faced with a whole different set of burdens with regard to vessel construction and inspection requirements, and they differ widely from the international accepted specifications set by the International Maritime Organization. Would it not be very logical for the Congress to work with you to authorize you and the Coast Guard to accept these international vessel standards for U.S. flagships?

Secretary PEÑA. Senator, we are attempting to secure international compatibility of all of these regulations. We think that makes a lot of sense and would be very helpful to the industry. There has been some disagreement in cases where the Coast Guard perceives that a certain regulation is important to safety, and other nations are not as attentive to a particular safety provision. I would simply caution that when we harmonize our international standards, we make sure that we are meeting the best safety levels we possibly can.

Senator LOTT. A couple of questions on the funding. How do you think that the proposed increase in the tonnage fee will impact the export of commodities such as grain and coal? I know you had to consider that. What is your impression of the impact?

Secretary PEÑA. Senator, we think it will have a minimal impact on the export of commodities and we have done an analysis of the impact.

Senator LOTT. You have not?

Secretary PEÑA. We have done an analysis of the impact, and we would be happy to share that with you.

Senator LOTT. Admiral, could you share that with us?

Admiral HERBERGER. We could make that available.

[At the time of printing the information referred to was not available.]

Senator LOTT. Did you consider other sources of funding in place of or in addition to the tonnage tax? For instance, obviously, the Department of Defense, we have talked about that, but a container tax, or did you look at the passenger ticket tax? What other vehicles did you consider?

Secretary PEÑA. Senator, we looked at a long list of other options. I do not have them in front of me. That discussion took place some time ago. Yes, we looked at many other options and we would be happy to share them with you.

Senator LOTT. And you basically rejected those others?

Secretary PEÑA. That is correct.

Senator LOTT. Or had them rejected for you by the Department.

Secretary PEÑA. Senator, you are absolutely correct in the sense that this is an intergovernmental effort, and some Departments felt more strongly about some of the other provisions. This was the one funding mechanism where we could get almost unanimous agreement.

Senator LOTT. I do not want to take too much more time.

Let me talk to you about the procedure here. You have got the House Merchant Marine and Fisheries Committee that has moved forward on their bill, H.R. 2151, and there are some other proposals pending you have already mentioned. Have you been given any indication, however, that the House Merchant Marine and Fisheries Committee will act on the administration proposal?

Secretary PEÑA. Senator, we have had a hearing on this some time ago. As far as I know, there would be an effort to at least, if not incorporate, merge the major provisions here and move forward on the legislation.

Admiral HERBERGER. We know the House is going to hold more hearings. There will be one very shortly, I believe, this week, on tonnage fees. The industry and other parties that would be impacted are being invited to testify. We know that the principals and staff are looking very hard at our proposal and they have not, to our knowledge, come to any specific closure on what they will do.

Senator LOTT. What if the Merchant Marine and Fisheries Committee took up the administration maritime reform bill, substituted H.R. 2151, and adds your funding mechanism, and sends it to the Senate. What would be your position on a bill of that type?

Secretary PEÑA. There are some provisions, Senator, in H.R. 2151 which may still be of some concern. We would need to look at that option very carefully. Let me have the Admiral respond to it, also.

Admiral HERBERGER. From what you just described, Senator, STP would still be in the bill. Again, until we come up with a funding source for STP, we are in a difficult position. In addition, there may be a couple of other parts of H.R. 2151 that we would like to see modified.

Secretary PEÑA. Senator, let me just say generally that we are happy to work with you and Members of the House, and with other Departments in the administration. A number of ideas have been proposed this morning, and whatever process you would like to recommend, we are happy to participate and to bring the parties together to see if there are any other options available to us. We would very much, however, like to see something done, and a bill passed this year.

Senator LOTT. Well, that is certainly a very positive attitude, and that is the way to proceed, and we appreciate that. It is awfully hard to get all the different interested parties on board. We need to do everything we can to make sure that we do have them on board, that we do not leave anybody on the box, and we want to work with you to try to see that that happens, and we certainly will be doing that as we good forward here in the next few months.

Thanks, Mr. Chairman.

The CHAIRMAN. As I understand your answer on that House bill, the series transition ships were not provided for by way of an offset or payment, and that you are not in position to support it or you do support it if we can up these fees, tonnage fees. That would be the likelihood. It is so difficult to get money out of defense, as you indicate. So, let us assume that we are in conference, we have got the House and Senate there, and we want to also include the series transition ships provided already in the House bill. Would you go up some on those fees or would that upset the original initiative that you here in 1945?

Secretary PEÑA. Mr. Chairman, this is a delicate balance and there has been some concern raised about the increase in fees that we recommended. We would have to do some further analysis to determine if a further increase would destabilize the apple cart, so I am not able to answer your question specifically this morning. I have to do some more homework.

The CHAIRMAN. Admiral Herberger, is anything being done to the shipbuilding industry to bring them into the competitive modern age? As I remember it, we discontinued the construction differential back in 1981, because with a 50-percent construction subsidy they still could not compete, the shipbuilding industry. And I speak affectionately now. These two have had a shipyard. I did not have one. I have got one without any debt and cannot get rid of it.

I went to a Salomon Brothers conference on the west coast making a talk, and they had a shipbuilding expert there and I sidled up to him. I knew I was going to sell that shipyard, and he was trying to sell me one down in San Diego. So, we have got a lot of shipyards now, and I understand the reason that they were sort of spoiled with military construction, and everything they did on the private side was all custom built that our foreign competition would bring out a model and say here it is, or the series construction.

Is that the case? Is our shipbuilding industry ready, even with—go back to 1981, a 50-percent differential, able to compete?

Admiral HERBERGER. Senator, I am very encouraged by a number of initiatives that our shipyards are engaged in today. I think there is a realization that in order to survive they are going to have to go back to commercial shipbuilding. Many of the companies that heretofore, and certainly in recent years, have been building exclusively Navy combatant ships, are now broadening their vision. We hear of any number of joint ventures with foreign shipyards that have a 30- to 40-year lead in this. In particular, the Japanese and the Koreans, because of a worldwide demand for new construction, are very interested in using the skilled workforce here, the infrastructure, and support from an administration.

There are a number of factors that are entirely different this year from the past. There is a certain amount of optimism. The money that has gone into the Technology Reinvestment Program, the TRP and the MARITECH program, it is not large. By the end of this month, we will announce a number of contracts with U.S. shipyards. The significance is that they are joint ventures, and in each and every case they have a foreign partner.

The idea is to jump ahead by bringing in partners that have been building commercial ships. The ships include double-bottom tank-

ers, container ships, cruise ships, any other vessel types. There are a number of things happening where the yards, if you will, have come to the realization that they are going to have to do this. Many of them are already doing it.

Now, what comes to pass remains to be seen, but we are encouraged by the attitude that is out there, and by the variety and quality of the responses to the MARITECH program. We are also encouraged by the initial queries regarding our title XI program. There is much more action than there was just 6 months ago, and I think we are going to have to——

The CHAIRMAN. Foreign participation, foreign partners is desirable, but then how about foreign-controlled vessels coming into this maritime security program and me being on one of these shows and saying well now you are just passing money over to foreigners to build ships, we subsidize in our country and we cannot get jobs for Americans, and that kind of thing?

Admiral HERBERGER. Our bill specifically gives the highest priority to U.S. ownership, 50-percent or greater. The second priority is for those companies that today operate vessels under the U.S. flag. There are a couple of operators that are primarily owned by foreign entities, but they do have ships in our trade today.

The CHAIRMAN. And they would be eligible.

Admiral HERBERGER. They would be eligible, but they would be in the second tier of our program. Ideally, we want U.S.-owned companies to participate in the MSP.

The CHAIRMAN. But you could get down to the second tier. What is the likelihood?

Admiral HERBERGER. I think that is going to depend on how responsive U.S. companies are to signing up for our program.

The CHAIRMAN. But you would be willing to do that, get down to the second tier.

Admiral HERBERGER. We would. But, again, they would have to be U.S. subsidiaries and employ U.S. crews. All of those aspects would have to be part of the program.

The CHAIRMAN. Very good.

Senator Breaux.

Senator BREAUX. Just briefly. I am pleased that, Mr. Secretary, you said that you were willing to continue working with others in the administration. I mean, I really think this question—I said it in my first question, about the Defense Department not giving really one dime to the program, and yet are the principal beneficiaries of having an American-flag merchant marine in case of a national emergency, from a defense standpoint.

And I really would hope that at some point you could at least sit down with Secretary Perry. I mean, I think it is so wrong for us to spend $1 billion over there to buy five foreign-built ships, and that was just the renovation cost. I mean that was not the purchase price; that was just to renovate them. They are going to spent $1 billion and it gives them five ships, and they get to own the ships and they get to, say, paint them gray and say those are our ships.

But I question whether that $1 billion just to renovate five foreign-built ships comes anywhere close to this program, which gives them 52 vessels that are crewed and ready to go. And, you know,

for a small contribution from the other department, they could have a much better program and be much better served from a defense standpoint.

The other point I think Senator Lott mentioned, is the OECD talks. I mean, we have heard the story, this is the last round, so many times. I mean it is like crying wolf. And one of these rounds in fact does have to be the last round. And the majority leader said he supports legislation which would say that we are going to take action against foreign countries that subsidize their shipyards in the way that they do.

And I just strongly urge that the administration take a very forceful stand. Do not go over there and give away anything in order to get very little. And let us be tough in it and let us finish it so we can move on with legislation in this Congress. And I really thank both of you for really a very strong effort that you have made to get us this far. It is the furthest we have ever been and now, Mr. Chairman, we are going to have to take the ball and do it. Thank you.

Senator LOTT. Could I just ask one more question, Mr. Chairman, and thank you for your patience.

Your package here, the Maritime Security Program, does have more stringent eligibility requirements than previous reform proposals, I believe, and is limited to only the 52 ships that we have talked about, 52 vessels. It restricts the program to liner vessels, leaves out contract carriers and bulk operators, and substantially reduces from 25 to 15 the age a vessel must be to be eligible for the program.

So, as this proposal is put together, a number of operators in the industry we are trying to save are excluded. And so I just wondered, what was the basis that you used for developing the eligibility requirements for vessels in the MSP?

Secretary PEÑA. Senator, one of our priorities was to ensure that the fleet was newer, and that was the reason for reducing the 20-year age limitation to 15 years. Second, we wanted to ensure that——

Senator LOTT. You know, that is a major concern by a number of interested parties.

Secretary PEÑA. I understand that, Senator. We are trying to. If we are genuinely interested in having a fleet available that is the most efficient for military purposes, we ought not to have older vessels. They ought to be newer, more efficient, and less costly to operate. Second, the other concern was to ensure that those vessels were more militarily useful than others, and that is why certain other categories were excluded.

That was the general focus of the criteria that were used. If we had more funds available, then we could include more than 52 vessels and, obviously, we could loosen up on some of those requirements. But we had to impose those to meet that target.

Senator LOTT. So, if you had more money, if the funding was there, if we could help you find a way to do that, certainly you would like to allow more, including older vessels, to be involved in different trades; right?

Secretary PEÑA. Let me have the Admiral answer that, Senator.

Admiral HERBERGER. One of the key problems with the older vessels would be the higher operating costs and the larger crews. Therefore, we need to reduce the amount of assistance and institute a flat fee by getting away from the ODS where we have some vessels over $4 million per ship. It is not realistic to think that if we reduced the flat fee to $2.5 million and then down to $2 million, that they would be able to continue to operate those older, larger crewed vessels.

So, part of our effort was to design a more modern fleet with smaller crews. Even so, as technology is introduced, crew sizes are coming down. So, this was all part of our effort to ensure that during our 10-year program of U.S.-flag vessels could become competitive with their foreign competition. That was the thrust behind it.

Senator LOTT. It was really driven by funding; was it not?

Admiral HERBERGER. Pardon me?

Senator LOTT. Was it not really driven by funding more than anything else?

Admiral HERBERGER. The billion dollars was set, certainly, and then the number of ships, 52, came as a result of the billion dollars; yes.

Senator LOTT. I understand, in talking to the staff about exactly what is excluded under this, some of the older vessels are actually some of the vessels that we would have the greater use for militarily, for instance, like car-carrying vessels and that sort of thing.

Admiral HERBERGER. Again, it is our intent to have car carriers and LASH vessels. We would have waiver authority for some of those vessels that are really militarily useful. But, again, the idea is not to have older vessels, particularly when you start getting up into the 5th to 10th year, those vessels would really be well over 25 years of age. Unless you go back and redesign the propulsion plant and reduce manning, an operator is going to have a very difficult time.

Senator LOTT. But you are saying, though, with regard to the car-carrying vessels, that you have waiver authority and it would be your intent to use those, if you need them.

Admiral HERBERGER. We want heavy-duty car carriers and LASH vessels in our program.

Senator LOTT. Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you. We will have a followup hearing from industry Wednesday week at 2 p.m.

Let me thank you, Secretary Peña and Admiral Herberger. We are very appreciative that you could be here this morning.

The committee will be in recess subject to the call of the Chair. Thank you.

[Whereupon, at 11:15 a.m., the hearing adjourned.]

S. 1945, MARITIME ADMINISTRATION AUTHORIZATION ACT FOR FISCAL YEAR 1995

WEDNESDAY, MAY 4, 1994

U.S. SENATE,
SUBCOMMITTEE ON THE MERCHANT MARINE OF THE
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room SR–253 of the Russell Senate Office Building, Hon. John B. Breaux (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Harold J. Creel, Jr., senior counsel, and Randolph H.M. Pritchard, professional staff member; and John A. Moran, minority staff counsel.

OPENING STATEMENT OF SENATOR BREAUX

Senator BREAUX. Good afternoon. The committee will please come to order.

This afternoon, the Commerce Committee is meeting to hear testimony from industry witnesses on the administration's proposed maritime reform bill. Last week, the Secretary of Transportation, Secretary Peña, presented the administration's bill to the full committee. We have all heard all of the reasons for supporting the U.S.-flag fleet and all of the statements generally supporting a maritime reform bill. Now comes the difficult part, which is working out the details and getting specific support for legislation, and that is why all of you, our industry witnesses, are here today, to help us work in the details.

The problems of the industry are not unique. As it is dwindling in size the interest of the concerned parties have become more apparent. And as those interests have become more apparent the solutions have become more elusive. I would encourage all to work together to develop a bill that is in the best interests of the industry and our country.

The administration's bill is not now nor will it ever be perfect. Certainly, there are changes that will need to be made. Yet we cannot divert so much attention to the details that we lose sight of the larger and more important picture, which is the importance of enacting reform legislation this year so that we can preserve this very vital industry.

Personally, I believe that we should have twice the number of ships in the program than are being proposed, and that the Defense Department should be a participant in helping to pay for them. But given the Defense Department's reluctance to help fund

the program, we have to look at this as a first step toward revitalizing the industry.

I would like to welcome up our first panel, but before I do that I would like to call on our distinguished Senator from Alaska, Senator Stevens, for any comment that he might desire to make.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Thank you very much. I hope I can stay for a great portion of this hearing. We do have a vote coming up, Mr. Chairman, at 2:30, and there are other matters coming up this afternoon, too. I have some substantial questions concerning the administration's proposal. I am not certain there is an adequate incentive in the proposal that will keep a substantial portion of our fleet under U.S. flag, and I remain concerned about the increasing protests from my State concerning the proposed increased in rates for shipping to Alaska.

Once again, Alaskans are the ones who are left out of this whole proposal. We are the only Americans who absolutely have to pay for American shipping. We do not object to that, but we do not know why we should see incentives for foreign trade shipping without finding some way to hold down the rates that are affecting the shipping to our State.

As the oil industry decreases in its volume of traffic to Alaska, the cost of shipping is falling more and more upon small business in our State. And as the various lines know, there is just a chorus of objections out there now to the proposed rates. And I understand why many of those rates are necessary, because as I mentioned, the fact that the amount of freight is falling off and inflation and particularly in the offshore service is very high, I again raise the question of whether or not we cannot find some way to find a way for the national Government or taxpayers as a whole to pay rather than impose upon Alaska the total use of total U.S. shipping, U.S.-built, U.S.-manned and U.S.-operated fleet. We want that, but we do not see any relief coming from these costs in this proposal.

I do have some questions that I will submit to the witnesses who are going to testify, but my shippers are telling me that the cost of shipping now between Seattle and Alaska is going up so fast that it is going to deter us from shifting from an oil-based economy to a more diversified and service-oriented economy. Businesses in Alaska just cannot afford the rates that are being proposed now.

Senator BREAUX. I thank the Senator from Alaska and would recognize the Senator from Washington, Senator Gorton, for any comments he might have.

OPENING STATEMENT OF SENATOR GORTON

Senator GORTON. Thank you, Mr. Chairman. This is an important hearing on an important subject, and to you and Senator Stevens, all of us who are interested in the American-flag merchant marine owe a great debt of gratitude. It looks to me as though something is actually going to happen this year, and we are here to try to make it in such for that it really does work.

Senator BREAUX. I thank you for those comments, and would note for the record that Senator Lott is on his way and will be participating with us, as well.

Let me welcome up our first panel, as I started to indicate earlier, John Snow, who is chairman and CEO of the CSX Corp.; and John Lillie who is president of the American President Companies, the American President Lines; William Verdon, who is senior vice president and general counsel of Crowley Maritime; Erik Johnsen, who is president of Central Gulf Lines; and Philip Shapiro, who is president and chief executive officer of Liberty Marine.

It is my understanding that Mr. Snow will be presenting testimony on behalf of the liner companies, and I understand also that John Lillie will have a few additional comments, and then Philip Shapiro will then testify on behalf of the bulk carriers. We are delighted to have all of you here.

Mr. Snow, we have you on the line first, if you would like to proceed.

STATEMENT OF JOHN W. SNOW, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CSX CORP.; ACCOMPANIED BY JOHN LILLIE, PRESIDENT AND CEO, AMERICAN PRESIDENTIAL LINES; WILLIAM P. VERDON, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, CROWLEY MARITIME CORP.; ERIK F. JOHNSEN, PRESIDENT, CENTRAL GULF LINES, INC.; AND RICHARD GRONDA, PRESIDENT, FARRELL LINES, INC.

Mr. SNOW. Thank you, Mr. Chairman. We are delighted to be here today, and pleased that this committee is giving this matter such intense attention and that you and Chairman Hollings and Senator Stevens and Senator Gorton and Senator Lott, Senator Inouye and others, have made this issue one of such importance. We think the time has come to confront the fact that unless action is taken now we simply will not have a U.S.-flag fleet going into the 21st century.

That would be a loss for us, but I think even more importantly it would be a great loss for the Nation, because the U.S.-flag fleet serves important national interests, important interests of national security and defense preparedness, and important commercial interests. It would be a shame to have the U.S. importers and exporters totally dependent on foreign-flag carriers, who are often instruments of their countries' national policies and who often have interlocking relationships with competitors of U.S. importers and exporters.

We are very pleased with the progress that has been made. Much of that progress simply could not have occurred, Senator Breaux, without the leadership role you have played personally over many years in bringing attention to this issue. On the House side, action has occurred. A bill has carried the House which is a good framework. We think the S. 1945, the administration bill which has the support of the President of the United States is also a vehicle that provides a good framework. Frankly, we would like to see some combination of those two bills, and appreciate your opening comments about the need for all of us to work together. I pledge on behalf of all of us that that is exactly what we are doing and have been doing.

First let me deal with the question of participation in the program. CSX and Sea-Land would enthusiastically participate in a reasonable program. I think we have shown our faith in the future

of the industry by our acquisition of four new ships with an option to buy two additional ships.

We have a problem, though, and that is that under existing Coast Guard regulations those new ships, state-of-the-art, technologically advanced ships built in Japanese shipyards, could not participate in this program without modifications in the administration bill. And if the bill is not modified and those ships were made part of this program, it would cost us about $10 million a ship to retrofit them. That would be a costly and unwise situation to find ourselves in and we are very hopeful that the committee and the Congress will look closely at those Coast Guard regulations that make U.S. construction ship design much more expensive than the prevailing standards in world markets.

I have said we are fully prepared to offer all of our ships in this program. At the same time, though, we think it is only fair that any of our ships which are not accepted in the program be permitted to find a competitive alternative to the U.S.-flag fleet, and if that means foreign flagging then I think we have to say that that option must be made available to us. But we start with the proposition that Sea-Land and CSX are prepared to offer all of our ships to the program. There are 24 eligible ships, and if all 24 are accepted and designated by the Secretary under the legislation in the program, they will be made available.

We also support, Mr. Chairman, your opening comments about the need for a bigger program. The 50-fleet program is certainly a start, but we think something much larger than that, 70, 80 ships, perhaps the 100 you mentioned, would be far more appropriate. We commend Secretary Peña, Administrator Herberger, and the administration for coming forward not just with a program and rhetoric about the need for a viable technologically advanced U.S.-flag fleet but with a funding source.

We think that funding source, though, should be augmented as has been suggested by others including yourself, with some additional funds from Defense Department since, after all, the Defense Department is a prime beneficiary of the availability of a U.S.-flag fleet. There also may be some savings that could be applied to the program from some rationalization of the RFF fleet. In our longer testimony that we have submitted for the record we provide a number of suggestions on areas where we think some language changes might be advantageous, and we hope the committee will consider them.

In closing, again we thank you for the leadership you and the committee have provided on this important issue. We feel we are at a crossroads and the time has come to act, and I thank you for the chance to appear before you today.

Thank you very much.

[The prepared joint statement of American President Lines, Ltd.; Central Gulf Lines; Crowley Maritime Corp., CSX Corp./Sea-Land Service; Farrell Lines, Inc.; Matson Navigation Co., Inc.; Totem Resources Corp.; and Waterman Steamship Corp. follows:]

JOINT STATEMENT OF AMERICAN PRESIDENT LINES, LTD; CENTRAL GULF LINES; CROWLEY MARITIME CORP.; CSX CORP./SEA-LAND SERVICE; FARRELL LINES, INC.; MATSON NAVIGATION CO., INC.; TOTEM RESOURCES CORP.; AND WATERMAN STEAMSHIP CORP.

We appear before you today to urge enactment, in this session of Congress, of long overdue legislation to revitalize the United States-flag liner fleet.

We have made this plea to Congress before, but it has more urgency now than ever—for two reasons. First, with the passage of time, severe shortcomings in our maritime laws and regulations have continued to weaken the U.S.-flag fleet. Chairman Hollings had it right at last week's hearing when he said that the industry is in "a heap of trouble." Second, right now, in this session of Congress, there is a unique opportunity to pass legislation because there is broad, bipartisan support for action.

That support begins at the top, with the President of the United States.

Which brings us to a point we'd like to make at the outset. We support the Administration's proposal—with some important modifications, some of which are present in the House bill.

In addition to the President's support, the House has already passed a bill, H.R. 2151, which includes some fine provisions and which also presents a framework for a good final bill. And this Committee has always recognized the need for action. We appreciate the long standing efforts of Chairman Hollings and Senators Breaux, Lott, Inouye, Stevens and others to advance this issue. So, with strong bipartisan support in both Houses of Congress, Presidential support, and strong Administration leadership from Secretary Peña and Maritime Administrator Herberger, we have a very real opportunity to pass a good, indeed historic, maritime reform bill this year.

We simply must not miss this chance. It may not come again. So, we are committed to working with this Committee, the Congress, and the Administration to ensure that this year will see the enactment of a truly good bill: one that will enable our companies to compete on a level playing field with foreign-based liner shipping while utilizing U.S.-flag vessels and employing U.S. citizen crews.

Before turning to specifics of legislation, let us state a few key principles.

All of our companies operate U.S.-flag liner vessels. All have a strong preference for U.S.-flag operations. However, if U.S.-flag operators remain disadvantaged two carriers, APL and Sea-Land, have said that they will have no choice but to rely more and more on foreign-flag operations in order to stay in the international shipping business. For the U.S.-flag fleet to survive, and be competitive, requires essentially three things: (1) direct government support—because we can not and will not pay U.S. citizen sailors third world wages; (2) an absence of program requirements which render the U.S. flag non-competitive; and (3) improved maritime tax laws.

Last week, when Secretary Peña and Administrator Herberger testified, much of the Committee's attention was focused on funding for a program. Let us say at the outset that we support efforts to secure funds for a larger than 52-ship program. The U.S.-flag liner fleet today is much larger than 52 ships, so providing for a program that would support more than 52 ships clearly is in the public interest.

However, we will emphasize today the practical aspects of how the program will work. We are the companies that will operate under a new program, Mr. Chairman. We have years of experience under present laws, and have seen how existing requirements hinder U.S.-flag operations in today's world of intense international competition. One very important point about regulatory issues, Mr. Chairman, is that they do not raise issues under the budget act and do not take money to solve. In short, it is not just the absence of government monetary support that can make U.S.-flag operations non-competitive. If the final bill does not resolve other issues in a way that enables us to compete internationally, that will discourage and may prevent some of our companies from including U.S.-flag vessels in their fleets. But, we want to emphasize that these concerns should be resolvable as they don't have budgetary implications.

THE PRESIDENT RECOGNIZES THE IMPORTANCE OF A U.S.-FLAG FLEET

We are gratified, today, to be able to quote the President of the United States in support of a strong U.S.-flag fleet.

On March 10 of this year, when Secretary Peña unveiled the Administration's proposal, President Clinton issued the following statement:

> This legislation represents an important step forward in assuring America's future as a maritime nation. A modern merchant United States-flag fleet, with skilled U.S. mariners, will provide not only jobs and economic benefits, but also important sealift capability in times of national emergency.

From those encouraging words, Mr. Chairman, we turn to some specifics on the legislation.

In general, Mr. Chairman, we applaud the Administration bill and H.R. 2151 for setting forth programs which provide government support to carriers, so that they will not only provide the country with economic benefits in peacetime, but also will be available to assist in times of emergency, and which do so under a regulatory regime that is improved from that of today. Beyond that, we would like to emphasize our views on the following points:

ENSURING COMPETITIVE OPTIONS—PROGRAM ELIGIBILITY

We have always strongly believed that a final bill must produce a reasonable competitive option for all U.S.-flag liner operators and their vessels. There is diversity within the liner segment of the U.S.-flag industry—some carriers are subsidized, some are unsubsidized, fleets are of different ages and types, with vessels designed to serve the demands of different markets and different port and internal transport infrastructures.

While we understand the Administration's interest in focusing on younger vessels, we have felt for some time that a bill should provide all U.S.-flag liner operators a reasonable chance to participate in the program on a voluntary basis. We do not feel that S. 1945 provides that flexibility and it is our intent to offer suggestions to provide broader eligibility for program participation. Those suggestions will make clear that containerships, ro-ro vessels, and LASH (Lighter Aboard SHip) vessels must be eligible for participation in the ten-year program.

ENSURING COMPETITIVE OPTIONS FOR VESSELS NOT IN THE NEW PROGRAM

Eligibility of vessel types, however, is only one part of the equation. There are critically important questions of process and options for vessels not eligible, or for those vessels which are eligible but are not included in the program. On these issues we feel the House bill has much greater merit than the Administration proposal because it includes specific provisions which set sensible policy, while S. 1945 relies too much on agency discretion.

The House bill provides deadlines for decisions by USDOT on whether or not a vessel which applies for the program is to be included. We support that approach, with shorter deadlines.

Importantly, H.R. 2151 would amend section 9 of the Shipping Act, 1916 to provide certainty that U.S.-flag vessels can reflag to foreign flag if they are refused participation in the new program due to lack of funds. We believe that the House provision should be modified, but emphasize that such a provision provides fundamental fairness to operators. Such a provision is an essential component of final legislation. We believe such a provision is consistent with the Administration's position, but this issue is too important to be left to discretion.

PROGRAM FUNDING AND SIZE

As to the means of funding a new program, the Administration has recommended an increase in vessel tonnage fees. The Administration clearly had to balance tight budget constraints against the obvious national interest in revitalizing the United States-flag liner fleet. After careful deliberation, the Administration chose an increase in tonnage fees as a means of funding a maritime program which would be consistent with budget act requirements.

We commend the Administration for having made a difficult choice and for proposing a funding source to Congress in its legislation. We support the Administration's decision.

Let us also add that we believe it would be reasonable for the Department of Defense to support at least a portion of a new maritime program. We also believe it would be reasonable for Congress to explore utilization of RRF funds, as raised by Senator Breaux in questioning at last week's hearing.

Because we have made clear our preference for U.S.-flag operations, it obviously follows that alternatives which increase a program beyond 52 ships would make us better able to operate under U.S.-flag.

GOVERNMENT SUPPORT LEVELS

We have several comments on the payment provisions of S. 1945. They are too indefinite. written in terms of payments "up to" specified levels. With correction of that indefiniteness, we prefer the Administration's payment per ship schedule of $2.5 million annually for 3 years and $2.0 million per year thereafter to the House payment schedule. We prefer the House bill's approach to the effect of carriage of

preference cargo on payment levels; it more properly captures the concept that carriage of incidental levels of preference cargo should not reduce support. The House bill is also perhaps clearer that program payments are in addition to, not in lieu of, compensation owed to carriers for services rendered in times of national emergency. We expect to suggest specific language on these points.

Also, let us emphasize that the payment levels under both H.R. 2151 and S. 1945 are less than payments made under today's ODS program. We respect that and will need to work with maritime labor to make the program succeed under these terms. The U.S. maritime industry has long been a world leader in the development of technologies designed to improve the cost effectiveness of intermodal transportation. Indeed, our technology and integrated intermodal systems are what allow us to compete with vessels that have substantial capital, tax, regulatory, and operating cost advantages over U.S.-flag vessels. However, the operating side of the industry must be allowed to realize the economic benefits of that technology. Thus, the companies and maritime labor must continue to pursue greater cost efficiencies in vessel operations. We promise our efforts on that score to help make reform succeed.

A NEW PROGRAM MUST ALLOW FOR COMPETITIVE ACQUISITION OF SHIPS

It is of critical importance that U.S.-flag operators have access to vessels priced at world market rates.

The only reason that this common sense proposition is in any way an issue is that there is an understandable interest in Congress—and by us when it is economically feasible—in utilizing United States shipyards. Most unfortunately, however, for cost and other reasons, competitive acquisitions are not available today from U.S. shipyards.

The Administration addresses this issue properly, Mr. Chairman. It would provide carriers in the new program access to competitively priced vessels while simultaneously providing financial assistance to shipyards, notably in the form of Title XI funding. The Administration approach would be improved, however, if it allowed operators the ability to put existing ships up to ten years of age into the program.

We want to be clear that we are very sympathetic to the needs of U.S. shipyards. We think that the government should provide assistance to shipbuilders to move from defense contracts to competing for commercial work.

However, it must be done in a way which dees not harm the competitiveness of U.S.-flag liner operations in foreign commerce. In that regard, we noted with interest the significant discussion, at last week's hearing in this Committee, of whether a program such as the Series Transition Program (STP) included in the House bill should be adopted by the Senate. The discussion at the hearing focused on how STP could be funded.

We would like to emphasize today that we do not see this solely as a funding issue. In H.R. 2151 the STP program is tied to proposed statutory language which would restrict the acquisition of vessels by U.S.-flag operators on the world market. We strongly oppose such restrictions. Those provisions would disadvantage U.S.-flag operators in terms of ability to acquire vessels at market price and in market time frames.

We close the discussion of this issue by emphasizing three main points.

1) We must have the same ability to buy competitively-priced vessels, new and existing, that our foreign-based competitors have.

2) We do not oppose U.S. government support of shipyards.

3) Any such support must be structured so that it does not reduce U.S. carriers' ability to compete in the international shipping market.

COAST GUARD VESSEL STANDARDS

We want to raise today more forcefully than ever before our continuing concern that U.S. Coast Guard vessel regulations impose higher costs on U.S.-flag vessels than our laws impose on foreign-flag vessels—without impact on safety. Those differences increase the cost of building new vessels for the U.S. flag (whether in a U.S. or foreign shipyard) and also increase the costs of operating and maintaining vessels under U.S. flag. We know that these regulatory differences from international standards do not contribute to safety.

As a result of international agreements, our nation accepts as safe foreign-flag vessels which meet international standards and which compete with our vessels. The vast majority of foreign-commerce vessels calling our ports meet international standards, but not Coast Guard rules. Those vessels use our ports every day of the year. Basically, the Coast Guard accepts international norms as safe unless a U.S.-flag vessel wants to use them! Then, our government requires more.

APL and Sea-Land have examined this issue extensively. Their data indicate that, in general, Coast Guard vessel rules increase the cost of acquiring new vessels roughly five percent, but possibly by more in some cases. Ongoing cost differentials imposed on U.S.-flag vessels by the difference between Coast Guard requirements and international norms approximate $100,000 per year per vessel. For a fleet of 25 U.S.-flag vessels, over a 25 year life beginning with construction, the cost of Coast Guard vessel rules can add up to roughly $200 million plus interest over the cost of foreign-flag vessels. This is a huge disadvantage for operators of U.S.flag fleets—for no safety benefit.

These vessel rules are a major obstacle to revitalization of the U.S.-flag fleet. Some of our companies have taken the view that their new vessels will not be flagged U.S. unless the government accepts international standards for them. All of our companies strongly urge that this problem be resolved in a way that allows U.S.-flag vessels to be competitive with foreign-flag vessels.

Over 26 months ago, APL and Sea-Land sent a list of roughly 300 regulations to the agency that they felt should be changed—without impacting vessel safety. Today, not one of those rules has been changed (except for one that the Coast Guard already had under consideration 26 months ago). None of the others have even been noticed for proposed change in the Federal Register.

So, after having discussed this issue with the Coast Guard for years, we now recommend a legislative solution. We regret that this has come to the point where we seek legislation, but the administrative process simply has not worked. We would be pleased if, sometime this summer. before Congress enacts new legislation, the Coast Guard adopts final rules resolving this issue in a satisfactory way. But until that happens, we strongly urge Congress to address his issue through legislation.

TRADE ROUTE AND MIXED FLEET RESTRICTIONS CAUSE SEVERE PROBLEMS FOR VESSEL OPERATORS

Competitive operation of a liner service requires that managoment have the operational flexibility to move ships receiving program payments to different ports, or put them into service in combination with non-program ships. The absence of such flexibility discourages U.S.-flag vessel operations because it signals to a company that its overall competitiveness would be hurt.

More specifically, the issue of mixed fleets (companies operating both U.S.- and foreign-flag vessels) has to be considered. For a vessel operator to commit to using U.S.-flag vessels as much as possible, that operator has to know that making that choice does not become a "trap" leading to non-competitive restrictions on its operations.

We urge this Committee to be aware that, in today's world of liner trade, competition is waged not just between vessels, but between fleets of vessels in numerous global markets. A company with U.S.-flag vessels is in commercial competition with fleets of all foreign-flag vessels. The company with U.S.-flag vessels has to know that, if it needs to respond to a commercial competitive situation it can do so, even if that means some use of foreign-flag vessels.

Let us turn now to how legislation should address these issues. We are all agreed that there should be no trade route or service frequency restrictions on vessels. Both S. 1945 and H.R. 2151 properly include no such restrictions in the new program.

On the mixed fleet issue, both H.R. 2151 and S. 1945 would continue to impose restrictions on the use of foreign-flag vessels under the new program. H.R. 2151 would establish a new section 407 of the Merchant Marine Act, 1936, governing use of foreign-flag vessels by participants in a new program. Section 204 of S. 1945 would address the issue by amending section 804 of that Act.

While both bills are somewhat less restrictive than present law, and while we see S. 1945's provision as less restrictive than that of H.R. 2151, we feel strongly that today's competition warrants far more change.

For example, under the Administration bill we are concerned that even the revised section 804 restrictions, coupled with no provision reforming Coast Guard vessel rules, would either prohibit a carrier in the new program from operating new vessels built to international vessel standards under foreign flag, or force it to offer vessels for the program and if accepted, retrofit them at great cost to comply with Coast Guard rules. This is a no win situation. In either case our companies are disadvantaged compared to foreign-based companies. We also have concerns with how these pending provisions restrict our ability to use time-chartered foreign-flag vessels, and other technical concerns.

For these and other reasons, we all feel strongly that restrictions on foreign-flag operations proposed in the two pending bills are far too great. We are hopeful this issue can be resolved.

NON-CONTIGUOUS TRADES

We are pleased to report that APL, Matson, Sea-Land, Crowley, and Totem Resources support a legislative solution which provides for existing domestic operations of carriers also engaged in foreign commerce to continue without unfair impact upon the unsubsidized domestic trades in which they also compete. In the past, this was a seemingly unsolvable problem. We commend the Administration and the House for including this solution in their bills. See section 653 of the Merchant Marine Act as proposed in section 202(e) of S. 1945, and section 207 of S. 1945; see also section 406 of the Merchant Marine Act as proposed in section 3 of H.R. 2151, and sections of H.R. 2151.

Again we are pleased that both H.R. 2151 and S. 1945 incorporate these provisions and urge the Senate to do so as well. We expect to suggest an agreed upon amendment to these provisions to increase service to Puerto Rico and Alaska, but otherwise do not expect to make further suggestions for substantive change in this area.

OTHER PROVISIONS

In addition to our views on the key issues which we have just discussed, let us briefly note our views on a few other issues.

- H.R. 2151, but not S. 1945, makes clear that a contract under the new program will be a binding obligation of the United States. We expect to suggest language based on the House provision.
- Carriers should not be subject to paperwork requirements that may have made sense in 1936, but not today.
- The program should not inadvertently hinder U.S.-flag carriers' ability to utilize the full range of financial tools in acquiring vessel capacity.
- The program must allow ODS operators who want to complete their ODS contracts to be able to enter into contracts under the new program, with the new contract taking effect after the end of the ODS contract.
- We would like an immediate effective date, not a delayed one, so that the new program and payments under it can begin as promptly as possible.
- H.R. 2151, but not S. 1945, allows a contractor under the new program to withdraw from it if circumstances warrant, a provision we believe should be in the final bill.
- H.R. 2151, but not S. 1945, properly continues to treat Guam as a point eligible for subsidized service under a promotional program. We expect to provide language on this point.
- We believe program eligibility should be limited to entities which are citizens under section 2 of the Shipping Act, 1916, to ensure that precious U.S. Government payments ultimately do not benefit competing foreign shipping companies.

URGENT NEED FOR LEGISLATION

We have just discussed our views on particular issues in the bill but, before closing, we want to make clear for the record why this legislation is so urgently needed. Essentially, there are two reasons: (1) the continuation of a U.S.-flag liner fleet will provide important economic and defense benefits; and (2) our current maritime laws and regulations are not working well, making it impossible for the nation to receive those benefits unless our laws are substantially changed.

THE BENEFITS OF A U.S.-FLAG LINER FLEET

Underlying the urgent need for an adequately funded program to revitalize the United States-flag liner fleet is the undisputed fact that, as noted in President Clinton's statement, such a fleet benefits both our economy and our national defense.

The advantages for the nation's defense of maintaining a U.S.-flag merchant marine are abundantly clear. The remarkable logistics feat of Operations Desert Shield and Desert Storm demonstrated yet again that the Pentagon needs a U.S.-flag merchant fleet in times of national emergency.

Although the Persian Gulf conflict was a situation in which the United States enjoyed broad international support, 81 percent of the dry cargo moved to the region moved on U.S.-flag vessels. U.S.-flag liner carriers transported almost 80,000 TEUs, plus significant non-containerized cargo moved on break-bulk, roll-on/roll-off, and LASH vessels. They demonstrated to the world how military supplies could be moved effectively and cost-efficiently to commercial vessels operating in large part on commercial service routes. In response to the Defense Department's request, the companies provided more than ships—they provided a complete, world-wide intermodal shipping system, including experienced management teams, trained sea-

farers, state-of-the-art port facilities, logistics and information systems and services, containers and equipment.

For the taxpayer this is much less expensive than having the government acquire, crew, and maintain in standby a fleet of its own. Moreover, only the existence of an active commercial fleet ensures a sufficient seafarer pool to crew vessels drawn from the government's Ready Reserve Fleet and reduced operating status fleets during emergencies. It is important to recognize that the government's continued expenditures on the RRF will be wasted if there is not a pool of experienced seamen available to man these vessels in cases of emergency.

As a result, we continue to believe that a promotional program does far more than compensate for higher operating costs. Programs such as those in H.R. 2151 and S. 1945 represent support by the government for a real service—ensuring the availability of companies with vessels, crews, and worldwide transportation systems for defense use in times of emergency—at far less cost to the government than maintaining such a capability under government ownership. This point was made forcefully by Senator Breaux at last week's hearing and we commend him for his efforts to ensure that the entire Congress and Administration appreciate this vital point.

The benefits to our economy of the U.S.-flag liner fleet are equally clear. A U.S.-flag fleet ensures that America's peacetime commerce will never become fully captive to foreign shipping. The presence of U.S.-flag vessels on our major trade routes helps ensure that the delivered price of American exports and imports is not determined unilaterally by foreign carriers, which in many instances are affiliated with foreign producers or their national governments. Senator Hollings, in his statement introducing the Administration's bill, and Secretary Peña, in his testimony last week, both correctly emphasized that it would be unthinkable, in a world of increasing international trade, for the U.S. to jeopardize its national economic interests by not having any U.S.-flag vessels to carry a portion of our country's imports and exports.

Finally, we can never neglect the important benefits to this country that accrue through the use of United States-flag vessels in terms of reductions in the U.S. deficit in foreign trade accounts and the employment of thousands of Americans at sea and in company operations throughout the country.

THE NEED FOR REFORM: DIFFICULTIES COMPETING UNDER THE U.S. FLAG

Not too many years ago, the carriers participating in this statement were only some of many companies operating United States-flag liner vessels. Now we are virtually all that are left. Other companies have not been able to withstand the increasingly intense foreign-flag competition.

But we are competitors, Mr. Chairman. We are still here. However, by being here we cave managed to buck the odds because, as U.S.-flag carriers, we are not able to operate on a level playing field with our foreign-flag competitors. There are several key areas of difference between our collective costs and those of our foreign competitors. The cost to operate and build our ships, the cost of regulatory standards for those ships, and the tax burden imposed by the United States. We are at a disadvantage in all of these areas. We have already discussed vessel standards. Let us note the other problems we face.

OPERATING AND CAPITAL COSTS

A tremendous advantage of U.S.-flag vessels to the nation is that they employ U.S. citizens as their crews. U.S. citizen crews enable our government to depend upon the U.S.-flag merchant marine for delivery of supplies to support the U.S. military under emergency circumstances where foreign citizens might not respond. They form the pool of seafarers which is used to crew the Ready Reserve Fleet in times of emergency.

Our U.S.-flag liner vessels are in competition with vessels that have far lower operating costs. The operating-differential subsidy (ODS) contracts of subsidized U.S.-flag carriers provide some parity against low wage compensation, but those contracts expire in a few years. For the unsubsidized carriers, the wage difference with foreign-flag vessels is a major problem right now.

Vessel capital costs are at least as critical an issue in ensuring the international competitiveness of the U.S.-flag liner fleet. Any restrictions on the ability to acquire market priced vessels puts a carrier at a tremendous disadvantage to its competitors. Yet today's ODS program denies subsidized carriers the opportunity to purchase ships, for use in the program, other than those built in the United States.

So, the current system of "promotional" laws leaves both unsubsidized and subsidized U.S.-flag carriers at a competitive disadvantage to their foreign-flag competitors. The U.S.-flag carrier can't win either way. The subsidized operator is restricted

in making vessel investments; the unsubsidized operator is at an operating cost disadvantage. This situation is driving investment away from U.S. registry. Change is clearly and urgently needed.

THE TAX GAP

U.S.-based liner companies are subject to significantly higher taxes than their foreign-based counterparts. In testimony two years ago to this Committee, APL and Sea-Land submitted data showing that, as a result of shipping income tax exemptions, deferral devices, and accelerated depreciation, our foreign-flag competitors pay virtually no taxes. Yet, here at home, even in our unprofitable years, we are subject to Alternative Minimum Tax. And the potentially helpful tax program U.S.-flag carriers do have, the Capital Construction Fund (CCF), has diminished in value. Consequently, today, U.S.-flag operators have to generate more revenue in the marketplace than their competitors in order to earn the same amount for reinvestment in the business or distribution to shareholders. That is a large competitive disadvantage. So maritime tax reform legislation is needed as well, Mr. Chairman, both to help all U.S. operators and before some companies will consider themselves able to economically offer new ships into the program. If it is not possible to enact such legislation this year, that makes it even more essential that the contents of a new program end the other competitive disadvantages faced by U.S.-flag operators.

DECLINE OF MILITARY PREFERENCE CARGO

We also note that, with the dissolution of the Soviet Union, the volume of military preference cargoes available to U.S.-flag carriers is rapidly declining. While that cargo is carried at competitive rates, it had provided a cargo base for U.S.-flag carriers which was helpful, but is of decreasing significance for the future.

In short, Mr. Chairman, U.S.-flag liner carriers are between a rock and a very hard place. The problems are there, they are significant, and they are in large part caused by the government's laws and regulations. Without legislation which constitutes a clear and full response to the competitive problems which we have outlined—and gives U.S.-flag operations a fair chance to compete—the decline in the U.S.-flag fleet can only continue.

CONCLUSION

It is critical that Congress seize the opportunity before it to pass a good maritime reform bill this year. As the President has made clear, a U.S.-flag liner fleet serves the nation's economic and defense interests.

The Administration bill and the House bill both present an acceptable framework for the final push to enactment. We have made suggestions today as to how Congress should take those proposals and, from them, craft an outstanding final bill that will help the U.S. flag fleet.

In particular, we have spent some time on regulatory and program structure issues, Mr. Chairman. We who would operate under the new program feel that we have particular knowledge to offer the Congress on how those matters should be treated so that we can have a fair chance to succeed in the unforgiving world of international competition—while utilizing U.S.-flag vessels with U.S.-citizen crews.

We have stressed, and wish to stress again, that drafting good regulatory and program structure provisions is critically important to competitive U.S.-flag vessel operations. Bad regulatory provisions will seriously discourage participation in the new program that we all want to be a success. And the regulatory issues we've raised do not have budget act implications. So, we appear before you with a "can do" attitude and are hopeful that the Committee can adopt our suggestions in the development of a final bill. That way, the new program will truly encourage U.S.-flag vessel operations and help level the playing field with foreign competitors.

In conclusion, last year, the House of Representatives passed a bill that presents a framework for a good new maritime program. The Administration's submission of a bill also represents a major, positive step towards enactment, with its commitment to a funding source being one of its strongest points. This Committee has shown keen awareness of the need for action. From this, we are hopeful that a good final bill, with funding, will be passed very soon.

We thank you, Mr. Chairman, and the Committee for the opportunity to appear before you today to emphasize the critical importance of enacting legislation this year to revitalize the United States-flag liner fleet. At this time, we'd be pleased to try to respond to any questions the Committee may have.

Senator BREAUX. Thank you, Mr. Snow. I would also recognize Richard Gronda, who is with Farrell and who is also a member of the panel and we thank him for being here.

Mr. Lillie, I understand you have some additional comments you would like to add.

STATEMENT OF JOHN LILLIE, PRESIDENT, AMERICAN PRESIDENT COMPANIES

Mr. LILLIE. Yes, Mr. Chairman. I would also like to join in John Snow's compliments and appreciation to you for the leadership that has gotten us here today, as well as to Senator Stevens, Senator Gorton, and many of your colleagues who brought us back from the brink of nothing exactly 12 months ago to the point we have before us is a feasible proposal to continue a viable U.S. maritime industry.

My comments are intended to supplement the coalition's testimony, not to show any disagreement. I want to emphasize that we are in total support of the proposal and the testimony as presented. My comments really relate to some of the things that John Snow just mentioned, and that is because in APL's circumstance we are moving forward with a substantial new building program which within 2 years will add new ships which will account for over 50 percent of our total capacity. So, we are also very interested in the proposal's impact on new builds as well as existing ships. Most of the focus in this legislation seems to be related to existing ships.

The two comments that I would add, then, would be that in considering new builds, automatic reflagging at the end of this program is very important because we cannot be in a position where we commit a 25-year asset to a 10-year period of economic viability.

The second item that I would note is that the program should provide for voluntary participation. The carrier should have the right to make the decision whether or not to participate, I should not be an all-or-nothing proposition. Rather, we should be able to look at the economics of each ship that we own versus the economics of the program. And this is particularly true, again, of new builds where the economics are substantially different than those are for existing ships.

So, we urge you to consider modification of the legislation that is before you to make the program truly voluntary, both for the carriers and participants as well as for the Government.

Mr. Chairman, I thank you for the opportunity to present these added comments.

[The prepared statement of Mr. Lillie follows:]

PREPARED STATEMENT OF JOHN LILLIE

I am John Lillie, Chairman of American President Companies, the parent corporation of American President Lines ("APL"), one of this country's oldest and largest operators of liner vessels in the foreign trades. I am pleased to appear before the Committee today with the other carriers to urge continued progress towards a more definitive maritime reform program, including the early enactment of a funded, voluntary new program of operating support for American companies operating United States-flag liner vessels in the foreign trades. Enactment of such a program—as well as regulatory and tax changes—is clearly needed to enable American operators to meet their foreign competition on a level playing field. I also greatly appreciate the opportunity to elaborate on a few points in our joint testimony.

PROGRESS TOWARDS MEANINGFUL REFORM

Nine months ago, with John Snow, the Chairman of CSX Corporation, I appeared before this Subcommittee to state the need for comprehensive reform of U.S. maritime policy that would address the competitive problems faced by all companies competing against foreign-flag carriers. We agreed that the focus of maritime reform had to be how to meet—and beat—this competition and must not repeat the mistakes of the past by trying to micro-manage American carriers by artificially structuring competition among them.

Last August when we testified, there was serious doubt whether the United States Government would adopt the reforms necessary to permit the continued operation of vessels under U.S. flag in order to meet its shipping needs for economic security and national defense. Although the House was considering legislation offered by Chairman Studds, Chairman Lipinski, and key members of the Merchant Marine and Fisheries Committee, that would authorize a new program of operating support, no funding for that program had been identified.

In fact, three months before our August appearance, Administration representatives had advised us and were publicly quoted in the press as saying that the Administration would not be funding maritime reform that year. We were surprised and deeply disappointed by that announcement. Indeed, as a result, in the weeks thereafter, both APL and Sea-Land Service filed applications to transfer some of our U.S.-flag vessels to foreign registry. The chances of enacting and funding an acceptable maritime reform program were simply not strong enough to justify further delay in implementing plans to reduce the numbers of U.S.-flag vessels in our fleets.

Today, the situation has changed dramatically. In February, the Administration presented a fiscal year 1995 budget that allocated funds for maritime revitalization and identified a revenue source in compliance with Budget Act requirements for new programs. In March, implementing legislation for the Administration's proposal, including necessary funding provisions, was introduced in both the House and the Senate. In his statement that accompanied the release of the Administration's proposed new program, President Clinton in fact answered the policy side of the question—whether having such a fleet was an important national interest—by stating:

> "This legislation represents an important step forward in assuring America's future as a maritime nation. A modern merchant United States-flag fleet, with skilled U.S. mariners, will provide not only jobs and economic benefits, but also an important sea-lift capability in times of national emergency."

It is impossible to understate the magnitude of the difference these events have made on APL's strategic planning for its fleet. Last August, we stated our strong preference for a U.S.-flag solution to the competitive problems facing our company, but acknowledged that the situation then forced us to begin planning for other solutions. We are not where we need to be on reform legislation, but there has been a sea change in the prospects for achieving funded reform before this Congress adjourns.

I am firmly convinced that without the untiring efforts of Senators Breaux and Lott and this Subcommittee this change would not have been possible. Since last November's House passage of H.R. 2151, the Merchant Marine and Fisheries Committee's maritime revitalization authorization bill, much attention has focused on and many accolades have deservedly been accorded Chairman Studds and members of that Committee for their extraordinary bipartisan performance in achieving House passage of that legislation with a substantial margin of victory. Yet I believe that there were other events equally as important to getting us to where we are today. Events that would not have occurred were it not for Senator Breaux's personal commitment to saving a U.S.-flag merchant marine.

Last Summer, it was widely acknowledged on the Hill and in the Washington community that absent an Administration commitment, it would be impossible to identify and secure funding for a new program. As the budget worked its way through the Executive Branch Departments and Agencies, Secretary Peña was repeatedly rebuffed at lower levels of the Administration in his efforts to add funding for maritime reform to the budget. Then, Senator Breaux and Chairman Studds took the extraordinary step of meeting directly with the President to stress to him the importance of the maritime industry in this country and to urge him to include funding for maritime reform in the budget. And the rest, as they say, is history.

Senator Breaux, the maritime industry is deeply indebted to you for your leadership on this vital issue. On behalf of the industry, let me say thank you.

The focus of maritime reform is now on this Committee and there is no one I would rather have at the helm. Two bills now before the Committee would provide a good framework for a new, funded operating support program: H.R. 2151, as

passed by the House last November, and S. 1945, containing the Administration's program. No one has ever maintained that these are perfect pieces of legislation. Indeed, there are a number of technical areas in which clarifying amendments are needed to ensure that the program works as necessary to achieve intended results. I can assure you that APL is committed to working with you and your staff on those issues.

NEW PROGRAM MUST BE VOLUNTARY

Any new program must be truly voluntary for all carriers—and for the Government. Each carrier must be free to decide which of its vessels to offer for enrollment and the Government must be free to select from among the vessels offered those that best meet its national defense and economic security shipping needs.

In order to operate a vessel economically under U.S.-flag in the new program, the payment under the new program plus the cost savings to be realized through the other parts of the reform initiative (including regulatory and tax reform as well as increased efficiencies achieved by the companies and maritime labor working together) must equal or exceed the competitive cost advantages possessed by our foreign competitors in those trades. indeed, with new governmental financial support fixed at the level set by the Administration bill, a primary determinant of APL's ability to participate in the program will be our ability to achieve labor efficiencies commensurate with that support through the collective bargaining process.

The determination that a vessel or a fleet of vessels can be operated economically under U.S.-flag if enrolled in the new program will involve many complex factors that will vary substantially for different companies and even for different vessels operated by a single company. Every company has different wage and capital cost structures, tax liabilities, financing, corporate relationships, and so forth. Moreover, the result also varies for: every combination of vessels in an operating string; the vessel mix in an operator's total fleet; the type of service in which the vessel is employed; the trade and ports served; and even the vessels employed by foreign competitors in the same trades and services.

When he introduced the Administration's proposed program to industry, the Maritime Administrator, Admiral Herberger, recognized that it was the operator who was most qualified to make these determinations. The Government, quite simply, is not equipped to make this determination and to attempt to do so would involve micromanagement to the "nth" degree.

Admiral Herberger also said then that the proposed program was "voluntary" and stated that an operator would be free to decide for itself whether to enroll an eligible vessel based on "the arithmetic."

However, the proposed legislation needs to be clarified to ensure that the Administrator's views are implemented. Under section 204 of the Administration bill, as introduced, and section 407 of the House bill, an operator would be forced to offer all of its vessels into the program, even those for which the numbers "don't add up," to be able to receive payments for any of its vessels. Thus, under either bill, the United States Government could force American operators to operate new vessels at an economic disadvantage compared to foreign carriers in the same trades. This is not the way to ensure a strong and competitive U.S.-flag merchant marine or maritime industry.

ENSURING A STRONG AND COMPETITIVE U.S. LINER FLEET

Relief from vessel operating and trade route restrictions is essential to ensuring the ability of American carriers to meet their foreign competition on a level playing field. A carrier must be able to configure and deploy its fleet in a manner that makes economic sense. This includes being able to determine what mix of program and non-program vessels is best for the company, the flexibility to deploy those vessels in response to changing economic conditions without being burdened by artificial restrictions on which vessels can serve in which services, and the ability to add capacity to its fleet, including additional foreign-flag vessels, without penalty.

These are not unusual operating freedoms—every foreign carrier against whom we compete possesses such flexibility. Appropriately, the Administration has recognized this and provides trade route relief in its legislation. For U.S. operators to have equivalent ability, we also must gain relief from section 804 restrictions, both under existing contracts and under the new program. If we are to meet—and beat—our foreign competition, these section 804 type restrictions must be eliminated as soon as any payments are made under the new program.

In addition, because the Administration has already announced that any new support program would be a one-time, ten-year program, section 9 of the Shipping Act of 1916 must be amended. For any operator with a new vessel not now under U.S.-

flag, the possibility that a vessel transferred to U.S. flag for enrollment in the program could be forced to remain under U.S. flag and operate at an economic disadvantage for 10 or more years after the program ends in 2004 is a powerful disincentive to offering the vessel for enrollment. Thus, APL joins the other U.S. liner carriers in general agreement that section 9 must be amended to allow automatic transfers to foreign registry for any liner vessel: ineligible for the new program; denied an operating agreement under the new program regardless of the reason; upon termination of the new program in 2004; or upon expiration of an existing title VI contract covering the vessel.

CONCLUSION

In closing, Mr. Chairman, APL continues to seek enactment of a new, funded, and fully voluntary maritime program. This is necessary if we are to retain a United States-flag liner fleet in foreign commerce. I urge the Congress to consider that each carrier comes to this process from a slightly different operating perspective and to ensure that resulting legislation enables all of us to compete effectively. This nation needs a strong and competitive U.S. liner fleet to meet its national and economic security shipping needs. To compete effectively in the foreign trades, that fleet must be able to meet its foreign competition on a level playing field.

Senator BREAUX. Thank you, Mr. Lillie. Mr. Shapiro, on behalf of the bulkers.

STATEMENT OF PHILIP SHAPIRO, PRESIDENT AND CHIEF EXECUTIVE OFFICER, LIBERTY MARITIME CORP.

Mr. SHAPIRO. Mr. Chairman, Senator Stevens, Senator Gorton. Good afternoon. I am Philip Shapiro, and I am the president and chief executive officer of Liberty Maritime Corp. While I cannot speak directly for every bulk operator on every issue, I am here to represent the consensus view of the U.S.-flag bulk sector, including in addition to Liberty's, those of OMI Corp., Marine Transport Lines, the American Gulf Companies, and Keystone Shipping. I have submitted an extensive statement for the record, and with your permission, Mr. Chairman, I will summarize the major points therein.

By way of background, Liberty is the largest independent operator of U.S.-flag dry bulk vessels. Our bulk carriers constructed in Korea in the 1980's, are among the most modern and efficient in the U.S. fleet. Before getting to the specifics of the administration's proposed legislation, I would like to express our appreciation to Chairman Breaux, Senator Lott, Senator Inouye, Senator Stevens, and Senator Gorton, for all of their efforts over the years to preserve and strengthen the American merchant marine. We would also like to commend Secretary Peña and Admiral Herberger. The Secretary and Admiral deserve thanks from everyone in our industry for getting the administration to finally take the initiative on maritime reform. We all know that without this reform our industry will continue to decline.

The reason I am here today is to express the support of the bulk industry for maritime reform legislation. In the interest of time I will focus on five problem areas in the administration bill. Please rest assured that our concerns about this legislation do not detract in any way from our support of the administration's and particularly this subcommittee's efforts to enact maritime reform legislation this year.

First, under the administration proposal bulk vessels would be excluded from the maritime security fleet. This is the case even though bulk vessels comprise over one-half of the active privately

owned vessels in the U.S.-flag fleet, both by number of vessels and by tonnage, and contribute over one-half of the seafaring billets. We look forward to working toward finding ways to include bulk vessels in this program. If, in the final analysis, we cannot do so because of the severe budgetary restraints, we nevertheless will support the legislation in the interests of preserving the American merchant marine. Our support, however, is dependent on satisfactory resolution of our other concerns with the legislation. It goes without saying that we cannot support legislation which leaves us considerably worse off than we are today.

Second, under the administration proposal used foreign-built vessels would be immediately eligible to carry bagged and bulk-preference cargoes if constructed after the date of enactment. By allowing used vessels into the bulk preference trade the administration proposal discourages new ship construction. There is ample precedent for a new construction requirement. Under the section 615 program of the 1980's, eight new dry bulk carriers entered the preference trade contributing to a 50-percent decline in the ocean freight differential, as documented by the General Accounting Office. Had used foreign-built vessels been allowed to enter the trade, no one would have built the state-of-the-art vessels that operate so efficiently today and the fleet would consequently be much older.

I might add that a new construction requirement aids our American shipyards. If used foreign-built bulk vessels enter the preference trade it is a virtual certainty that no bulk operator will build a new American bulk vessel. Therefore, we recommend with respect to bulk cargoes the 3-year wait waiver should be limited to newly constructed vessels immediately documented under U.S. law.

Third, under the administration proposal liner vessels receiving MSF payments would be allowed to carry any amount of bagged cargo and up to 5,000 tons of bulk cargo with MSF payments. This double subsidy is unfair to bulk operators, who are ineligible for subsidy under the MSF program. The administration proposal should be modified to reflect the principle that MSF payments should be used only to compete against foreign-flag vessels, not other U.S.-flag vessels excluded from the program.

The best way to correct the language would be to prohibit MSF payments when any bagged or bulk preference cargo is transported. Alternatively, we would suggest a compromise under which liner vessels could carry an aggregate of 5,000 tons of bagged and bulk cargo with MSF payments. However, vessels not receiving such payments must be fixed first, and MSF payments would be reduced by an amount bearing the same ratio to the amount otherwise payable as revenue for preference carriage bears to gross revenue for an entire voyage.

Fourth, under the administration proposal bulk vessels which are ineligible for the MSF program would pay increased tonnage fees, even when carrying preference cargoes. These costs will mostly be passed through to the Government, thereby generating no new net revenue, while unnecessarily increasing U.S.-flag rates. This will lead to more criticism from our cargo preference opponents.

The administration proposal should be modified to exempt vessels carrying preference cargoes from the tonnage tax. This exemp-

would apply to both liner and bulk vessels, and if necessary r GATT to both foreign-flag and U.S. vessels. If the modifica- results in less revenue, the number of voyages required to fy for the existing tonnage tax limitation, currently at five, d be increased to offset the revenue loss; or, if necessary, nated altogether. Excess revenue can be used to enlarge the program for bulk vessels and to provide assistance to Amer- shipyards.

st, the administration proposal lacks all the important cargo erence reforms which are included in the House legislation as requiring the use of more commercial-like charter terms by U.S. Government shipper agencies. The House added these re- s after holding three hearings on the Russian food aid pro- m. What the House learned is that the adoption of more com- cial practices reduces the ocean transportation costs. Therefore, administration proposal should be amended to include H.R. 1's cargo preference reforms.

Mr. Chairman, this concludes my remarks. Once again, on behalf all of the bulk operators, we thank you for the opportunity to ap- ar here today, and look forward to answering any questions you y have.

[The prepared statement of Mr. Shapiro follows:]

PREPARED STATEMENT OF PHILIP J. SHAPIRO

Mr. Chairman, my name is Philip Shapiro. I am the President and Chief Executive Officer of Liberty Maritime Corporation, the largest independent operator of U.S.-flag dry bulk vessels. Liberty operates six vessels, including five dry bulk carriers and one tanker. Liberty's vessels are among the most modern and efficient in the U.S.-flag dry bulk fleet. Liberty's vessels are primarily engaged in the U.S. preference trades, although they also compete in the foreign commercial markets around the world.

Mr. Chairman, Liberty deeply appreciates and strongly supports this subcommittee's effort to enact comprehensive maritime reform this year. As we are all aware, last year the House overwhelmingly approved comprehensive maritime reform legislation, embodied in H.R. 2151, because of the bipartisan leadership of Merchant Marine Committee Chairman Studds, Subcommittee Chairman Lipinski, Congressmen Fields and Bateman, and virtually all of the other members of the committee. Earlier this year, Secretary Peña and Admiral Herberger, overcoming the opposition of elements within the Administration who do not believe a vibrant U.S.-flag merchant marine to be a national priority, introduced the Administration's proposal, embodied in S. 1945. The Secretary and the Admiral deserve much praise for their efforts. You and Senator Lott, both as members of the House and now as Senators, as well as Senators Inouye and Stevens, have demonstrated leadership over the years on maritime issues, and all of us m the maritime industry are counting on you to do so again.

While I cannot speak directly for all U.S.-flag bulk operators, I know that they share my views on the necessity of maritime reform. We in the bulk sector recognize that without maritime reform, our merchant marine will continue to decline, with the loss of thousands of maritime jobs and the erosion of our national defense capabilities.

We in the bulk sector also recognize that maritime reform must embody a long-term commitment on the part of the federal government to promoting the merchant marine. The continuing uncertainty surrounding government policy, particularly in the cargo preference area, only serves to discourage the new ship construction that is critical for our industry's long-term revitalization. Since 1986, no new U.S.-flag dry bulk carriers have entered the trade, reflecting concerns in the ship financing community about the government's commitment to cargo preference. Only with a long-term commitment by the government to maritime reform will there be financing for new ships.

I will turn now to the Administration's proposed maritime reform legislation. We have several suggested improvements to the legislation.

Exclusion from MSF Program. Although we, like other U.S.-flag operators, recognize the necessity of maritime reform, we in the dry and liquid bulk sector are disappointed that the Administration's proposed legislation provides no direct government assistance for the bulk sector.

Comprising over half of the active, privately owned U.S.-flag merchant fleet (by both tonnage and number of vessels) and its seafaring billets, bulk vessels play an important national defense role, carrying fuel, food, equipment, and commodities to our troops abroad during wars and national emergencies, as well as supporting our skilled, readily available merchant marine manpower base. Bulk vessels also project America's good will abroad, providing tangible evidence of America's commitment to helping needy people through our food aid and other programs.

Notwithstanding the importance of the bulk fleet, the principal focus of the Administration proposal is a maritime security fleet (MSF) program limited to liner vessels. We look forward to working to expand the scope of the MSF program to include bulk vessels. If, in the final analysis, bulk vessels cannot participate in the MSF because of strict budgetary restraints, we nevertheless will support enactment of legislation this year in the interests of the overall health of the U.S. merchant marine. We will not, however, support legislation containing provisions that will disadvantage the U.S.-flag bulk sector, as discussed below.

Three-Year Wait Rule. The three-year wait limitation contained in the Cargo Preference Act of 1954 requires foreign-built vessels to wait three years after being documented in the U.S. before carrying preference cargoes. Under the Administration proposal, used foreign-built would be immediately eligible to carry bagged and bulk preference cargoes, if constructed after the date of enactment.

Allowing used foreign-built vessels to carry bulk and bagged preference cargoes without complying with the three-year wait rule would be a huge mistake. Such a provision would discourage the new ship construction that is necessary for the long-term revitalization of the U.S. merchant marine. It is unrealistic to expect a U.S.-flag operator in, for example, 1995 to order construction of a brand-new vessel when the operator could buy the same vessel used three years later at a much lower price. It is equally unrealistic to expect a U.S.-flag operator in 1998 to order a newly constructed vessel—either domestic or foreign—when the operator can purchase a used foreign-built vessel at a fraction of the cost.

A new-construction requirement would mirror the highly successful Section 615 program of the early and mid 1980s. Under this program, Liberty's five bulk carriers, as well as three others, were newly constructed in foreign yards without any government financing, guarantees or subsidies. The entry of these vessels into the preference trade contributed to a 50 percent decline over a ten year period in the ocean freight differential between U.S.-flag and foreign-flag vessels, as documented by the GAO. Had the acquisition or retrofitting of used bulk vessels been permissible under Section 615, the cargo preference trade would have been permanently destabilized, and no U.S.-flag operator would have purchased the new state-of-the-art bulk carriers that are operating so efficiently and economically today.

A new-construction requirement will also promote the American shipbuilding industry. We in the bulk industry support efforts to make the American shipbuilding industry internationally competitive, and look forward to the day when bulk operators will receive competitive bids for new vessel construction from both American and foreign yards. If, on the other hand, used foreign vessels may enter the preference trade, it is a virtual certainty that no operator will consider building a new vessel in an American yard.

We recommend that the Administration proposal be modified along the lines of Section 615 and the provision contained in H.R. 2151, so as to limit the three-year wait waiver to newly constructed vessels immediately documented under U.S. law. This will encourage an influx of new vessels into the U.S.-flag fleet that will, over the long-term, lower rates for U.S. government shipments, generate budgetary savings and increase the fleet's competitiveness in international commercial markets, as well as promoting the American shipbuilding industry.

Double Subsidy. Under the Administration proposal, liner vessels receiving MSF payments would be allowed to carry any amount of bagged cargo and up to 5,000 tons of bulk cargo and still receive MSF payments. Although the Administration's proposal is preferable in this regard to the comparable provision contained in H.R. 2151, it is nevertheless unfair to competing bulk operators, which would be ineligible for MSF payments and which voluntarily gave up the right to operating-differential subsidy in the late 1980s for the carriage of preference cargoes.

Therefore, it is important to establish the principle that MSF payments should be used only to compete against foreign-flag-of-convenience vessels, not other U.S.-flag vessels operating without MSF payments. The Administration proposal should

be amended to prohibit MSF payments when any bagged or bulk preference cargo is transported.

Alternatively, [illegible] proposal could be [illegible]d to allow [illegible]r vessels to carry an aggregate of 5,000 tons of bagged and b[illegible] with [illegible] but only if vessels not receiving MSF payments are [illegible]t and [illegible] are reduced by an amount bearing the same ratio [illegible] revenue for preference carriage bears to gross [illegible] [illegible] vo[illegible]

Tonnage Tax. The Administration has proposed tripling the current tonnage tax as a financing mechanism for the [illegible] pr[illegible]. The [illegible] vessels [illegible] [illegible], on a per vessel ton basis, to both U.S.-[illegible] vessels [illegible] [illegible], as well as foreign-flag vessels, for each [illegible] five [illegible] the United States from a foreign port. As we [illegible] [illegible] future, the rate for bulk vessels arriving from points outside [illegible]stern H[illegible]re (where virtually all of our voyages take place) would almost [illegible] per ton to $0.71 per ton. We estimate that the increased tax would add [illegible] $315,000 per year to our company's tax burden.

As indicated, the tax would apply to both U.S.-flag liner vessels and bulk vessels. This is the case even though liner vessels receive all of the benefits of the Administration's proposal through the MSF fleet. All the tonnage tax can do, vis-a-vis the U.S.-flag bulk sector, is hinder our revitalization—a goal directly at odds with maritime reform.

The primary market for U.S.-flag dry bulk carriers is the U.S. government through the various food aid programs. If the tonnage tax is enacted, one of two things, or a combination of these two things, will occur. First, we may be able to pass the cost of the tonnage tax to the government through higher rates, in which case no net revenue is realized by the government. Moreover, cargo preference opponents will blame us, not the government, for the resulting higher rates. Second, if we absorb the cost, the bulk sector is a net loser under maritime reform, because bulk vessels cannot participate in the MSF program, even though they will fund substantial portion of the program.

Ideally, funding for the MSF program would come from the defense budget. From DOD's perspective, the benefits of a capable U.S.-flag merchant marine far outweigh the cost of the MSF fleet, which is minimal in DOD terms. We recognize, however, that a DOD financing mechanism is unlikely at best, particularly in light of Secretary Peña's statement last week [illegible]t the Administration opposes DOD financing.

Assuming that we must address [illegible] financing issue in terms of a tonnage tax, we recommend the following: [illegible] carrying government-generated cargoes under the various cargo preference [illegible]uld be exempt from the tax. This exemption would apply to both liner and [illegible]sels and, if necessary under GATT, to both U.S.-flag and foreign-flag vessels. To the extent the preference-voyage modification would result in less revenue, we recommend that the number of voyages required to qualify for the existing current tonnage tax exemption, presently at five, be increased to offset the revenue loss, or eliminated altogether. The revenue generated in excess of the preference cargo offset should be used to enlarge the MSF program to include bulk vessels and support the shipbuilding industry.

Omission of Cargo Preference Reforms. The Administration proposal lacks the cargo preference reforms included in H.R. 2151, such as requiring the use of commercial-like charter terms by shipper agencies. The House added these provisions following its hearings concerning the Russian food aid program held by the Agriculture subcommittee of House Appropriations, the Foreign Agriculture subcommittee of House Agriculture, and the Merchant Marine subcommittee. As you recall, our critics said that we were price-gouging and that our rates were so high that they would torpedo the Russian food aid program. In fact, the U.S.-flag rates were in fact fair and reasonable—considering the risks we were required to assume, such as long discharge delays and constantly changing costs for stevedoring and other port services.

The consensus at these hearings, even among the Farm State congressmen, was that there was no price gouging on our part. Everyone recognized that U.S.-flag freight rates would be substantially lower if the U.S. government shipper agencies, USDA and MD, took some common-sense steps, such as contracting on a long-term basis and allocating the costs and risks inherent in ocean transportation, such as port delays, stevedoring, storage, inland transportation, and the like, to the entity in the best position to control them, usually the charterer and/or consignee.

At the hearings, we pointed out that USDA and MD could learn from the Israelis, who, under the Side Letter program, each year purchase 1.6 million metric tons of American grain and ship half of it on U.S.-flag vessels. The Israelis charter U.S.-flag bulk carriers for about a third less than what USDA, MD and recipient countries pay for the same ships for similar voyages because they contract on a long-

term basis and structure the charters so that both the vessel operator and the charterer have every incentive to load and unload the cargo as quickly and economically as possible.

The cargo preference reforms contained in H.R. 2151 are but a first step in bringing more commercial-like practices to U.S. government food aid and other foreign aid programs. While our aid programs are not purely commercial programs, we should use commercial-like practices where appropriate. The Administration proposal should be modified to include the cargo preference reforms contained in H.R. 2151.

Lowering Costs and Increasing Efficiency. The Administration proposal does not take any steps to deregulate U.S.-flag operators so that we can lower our costs and increase efficiency. As you know, U.S.-flag bulk operators must comply with stringent tax, safety, environmental, and labor standards not borne by their flag-of-convenience competitors. With the U.S. -flag merchant marine under increasing criticism from shipper agencies and agribusiness interests seeking to lower transportation costs, lowering costs and increasing efficiency are necessary to preserve cargo preference, which makes it possible for U.S.-flag operators to utilize U.S. citizen crews.

What the U.S. government needs to do is maintain high safety and environmental standards while, at the same time, lowering relative costs so that U.S.-flag operators will become more productive and will be more competitive with flag-of-convenience operators. In some areas, we can accomplish this goal by raising the standards for others. In other areas, we can adopt international standards, if consistent with safety, environmental and other concerns. Areas that need to be addressed in the maritime reform legislation include manning, safety and environmental requirements, as well as taxation.

In this regard, we must be careful not to "oversell" deregulation. In the bulk area, the competition is flag-of-convenience vessels manned by third-world crews and subject to minimal or no tax, environmental, safety, and labor regulations. Unless we are ready to take draconian steps, such as eliminating all of the employment taxes imposed on U.S. employers and workers (28 percent income tax, a six percent state rate, a combined FICA and Medicare tax of 15 percent, a three percent unemployment tax) and abolishing our minimum wage laws (a Bangladeshi crewmember can be hired for $18 per day with no benefits), our costs will always be higher than our flag-of-convenience competitors. That is why it is important that the U.S. government continue to offset these burdens with promotional programs such as the MSF and cargo preference.

Cargo Base. The Administration proposal does not take any steps to increase the U.S.-flag cargo base of government-impelled cargoes. With respect to agricultural exports, only about four percent of all exports and less than 10 percent of all government-subsidized exports are transported by U.S.-flag vessels under the cargo reservation laws. Since the enactment of the 1985 Farm Bill, the percentage of U.S. government-subsidized exports subject to cargo reservation has declined by about 23 percent.

A modest step that would strengthen our cargo base, without impinging on commercial exports. would be expanding cargo preference to include MD's cash transfer foreign aid program. Under this program, our government gives billions of dollars away each year with no strings attached. The United States is the only country in the world that does not tie its aid. Under legislation long advocated by Senator Sarbanes and Congressman Torricelli, countries receiving cash transfers would be required to use their cash to purchase American goods and ship half those goods on U.S.-flag vessels. Incorporation of the Sarbanes-Torricelli legislation into the maritime reform legislation would create an important new source of cargo while also assisting other American industries without intruding on the commercial sector.

Another concern the U.S.-flag bulk sector has with respect to the cargo base is the shipper agencies' efforts to avoid preference whenever possible. USDA, for example, has funneled billions of dollars worth of grain to Russia and other countries through preference-exempt commercial agricultural programs, even though the recipient did not meet the statutorily imposed creditworthiness requirements. Congress needs to increase its oversight of the shipper agencies to ensure that cargo preference is not evaded.

Ship Construction and Repairs. The Administration proposal should be modified to include more assistance for our nation's shipbuilding and ship repair industries, perhaps along the lines of the series transition payments contained in H.R. 2151. U.S. shipyards now compete with heavily subsidized foreign yards which are often subject to minimal tax, labor, environmental and safety requirements. The U.S. government must address this situation.

At the same time, if U.S.-flag bulk operators are to compete in international markets, we must be able to build and repair vessels at a competitive cost. As discussed above, allowing newly constructed, foreign-built vessels immediately documented under U.S. law to carry preference cargoes would accomplish this goal (while continuing the restriction on used foreign-built vessels would give American shipyards a fair shot at new vessel construction business). Along the same lines, the Administration proposal should be modified to eliminate the Customs Service's 50 percent duty on foreign repairs. This duty applies only to U.S.-flag vessels, and puts us at a significant competitive disadvantage.

In closing, I appreciate and support the efforts of this subcommittee and the full committee, in particular Senator Breaux and Senator Lott, to revitalize our industry. Maritime reform legislation, although currently enjoying broad support, still has a long way to go. We look forward to continuing to work together towards enactment this year.

I would be pleased to answer any questions.

Senator BREAUX. Thank you very much, and I thank all of the panel members for their statements and being with us as we develop this legislation. I think it is important to note right from the beginning, and I think some of the statements alluded to it, is that the whole question and the whole purpose of an operating program for U.S. vessels is not so that the vessel companies can make money or make a profit. The whole justification is that we have a need for a strong maritime industry in order to help protect the national security of the United States of America, and this is one way of doing it that I think makes a great deal more sense than any other alternative that has been suggested.

Which leads to reasoning as to why the Department of Defense should be involved in helping to pay for a program that is truly part of the national security and part of the national defense. So, I am glad that is something that I think you gentlemen do, in fact, recognize.

Let me ask a question. The administration's bill on this reflagging question—I think, John Lillie, you referred to it. The administration's bill would require that an operator offer the ship for inclusion in the program and then be denied before the vessel could then be reflagged. The effect of this would be that operators would have to offer up their entire fleet for the program before they could reflag any of the vessels.

On the other hand, some have expressed concern—and the next panel will probably address it—have expressed concern that unless the Department of Transportation maintains some control over the reflagging, the end result of legislation which is aimed at revitalizing our own American industry will be that it does just a little more than legalize in a wholesale manner the reflagging of all of our vessels.

Can I get some discussion on that?

Mr. LILLIE. Yes, Mr. Chairman. What we are trying to point out is that—at least in the case where you have a number of new builds and existing ships, that you could be presented with a Hobson's choice of whether to put all in or only part if, for example, the economics on new ships just do not make it feasible to participate.

Just one area, the tax area: If H.R. 2152 does not advance and the provisions for CCF and accelerated depreciation are not available, that makes the whole economics of new builds substantially different as far as participation in the program. So, we could find ourselves where we are forced to conceivably put noneconomic

ships into the program. And, as I say, it would be a very difficult choice depending on what happens in the other areas related to the legislation. Once it has passed, of course we still have to meet with labor in the partnership that has brought us here today and develop a program of productivity that will be consistent with the legislation.

Senator BREAUX. Mr. Johnsen, you had a comment on that.

Mr. JOHNSEN. Mr. Chairman, thank you. First of all, I will also take the opportunity of expressing my appreciation for the leadership that you and Senator Lott and Senator Stevens and Gorton have taken on this.

In commenting on the reflagging issue, it seems to me that we have ourselves, and as a company have always felt that we should operate a U.S. flag to the capacity that we can. But I think—speaking and following Mr. Lillie, I think that we all do have the problem, if there are insufficient funds for all the ships to be taken in, that the operator has to have the flexibility to remain afloat. If he does not, then the whole program will collapse.

I think it might be of interest to discuss the question of the availability of funds, if you do not mind me diverting just a little bit to another question. And that is 2 weeks ago you, correctly I think, commented on the availability of funds from the Ready Reserve Fleet. I have looked into the economics of that and find that we are budgeting something like $250 million a year for that program, and if some of the old break-bulk vessels were taken out of that, we could achieve something like about $50 million a year that could go toward this program and help to increase the number of ships that would be available under the program. Because I think that we are, at the 52-ship area, really at a borderline of having a program that is insufficient for the national interest.

Senator BREAUX. I appreciate that comment. Let me ask, I think maybe APL and Sea-Land are in the process of building several new ships in foreign yards but, as I understand it, those ships are not being built to U.S. Coast Guard construction standards. It certainly presents a dilemma. Those ships would, under existing law, be excluded from the program, yet I take it they are modern and very new ships. What is the rationale behind the decision not to build them to the U.S. Coast Guard standards, and give me some discussion of that?

Mr. SNOW. Mr. Chairman, our decision to build in the Japanese yards, as opposed to yards anywhere else in the world, including U.S. yards, simply came down to a matter of straight economics and timing. We got the most competitive bid and the shortest time for delivery from the Japanese yards.

To make these ships competitive on the world market with the foreign carriers that we face in all of our trade lanes, and to get that low price, we had to take an off-the-shelf ship, with international standards, which are the same standard that OOCL and Evergreen and Hapag-Lloyd and P&L and all of our competitors use.

Those foreign-flag ships, by the way, carry some 96 percent of all the liner cargo coming in and out of the United States. If the international standards were not standards that were safe, then I am sure the Coast Guard would have acted already and not allowed

those ships to come into the United States. So, presumably, since the Coast Guard allows those ships in and itself is a party to the international standards organization, we think there is no question of safety; it is really a question of economics.

And we have looked into the cost of retrofitting those four ships. If those ships were retrofitted to U.S. standards, to Coast Guard standards, it would cost us about $10 million per ship, which on a present value basis, as it comes out, is about the per ship value of the security fleet program which is being proposed by the administration.

So, we would very strongly urge that, as part of this legislation, ships built to international standards be allowed to be part of the program and, frankly, Senator, the Coast Guard regulations, design standards and regulations, be severely reviewed so that they would be in conformity with international standards. And I say that in the firm belief that there is no safety issue involved in conforming to international standards.

Senator BREAUX. Not to make you present the Coast Guard argument, but would they argue or do they argue to you that is essential from a safety standpoint?

Mr. SNOW. Senator, I am not sure what, frankly, the Coast Guard rationale is on that. I think that is probably what they would say. And I have raised this issue with the Coast Guard and with the Secretary and with the Administrator on a number of occasions, and I guess the dilemma for me, the thing I can never quite understand, is why 96 percent of the ships, in terms of the tonnage hauled, are allowed into U.S. ports in conformance with international standards while we, the U.S. operators that compete with those ships, are required to adhere to these higher standards. I really do not think there is any safety issue.

Senator BREAUX. Senator Stevens.

Senator STEVENS. Well, gentlemen, as I indicated earlier, I am little worried about the impact of this proposal on my State. There is an agreement here in S. 1945 that, as I understand it, will prevent anyone from entering the domestic trade for Alaska unless they obtain a waiver from the Secretary of Transportation. Is that right?

Mr. VERDON. Senator, that is correct and that is a confirmation of existing law. If you receive subsidy payments, you cannot go into the domestic trade today without a waiver. And this is a confirmation of that, saying that if you receive MSP payments, in order to be in the domestic trade there would have to be a waiver and meet the tests. And the purpose of that, from 1936 onward, was to protect the domestic operators from somebody receiving a subsidy that was meant to give you an equal footing with a foreign competitor, to protect the domestic fellow from having a foreign operator coming in and using that money unequally.

So, the provision in 1945 is an agreement amongst the carriers that sort of codifies, essentially, where we are today under the law, except it takes away some loose interpretation of what the waiver requirements are and it codifies exactly what we think the law is.

Senator STEVENS. We are the only place in the United States that is still limited to totally U.S.-built, operated, and manned shipping. Hawaii is not; they have exceptions. My shippers tell me

that the cost for shipping the same amount of goods the same distance on the east coast is one-fifth the cost of shipping to Alaska. How can Alaska ever build a new economy if we are faced with increasing rates.

The Port of Anchorage wrote to me and told me that the shipping rates have gone up by 60 percent in the last 5 years, of household goods, and that all rates in the Alaska trade are going up again. As you know, they protested the rates to the ICC. Is not this bill just going to fix it so we do not have any more competition and, in effect, that we are going to be locked into an ever-increasing spiral of shipping rates?

Mr. VERDON. Senator, I do not think this bill fixes it that it makes it any different than it is. For instance, before this bill gets passed the fact of the matter is that Crowley, who serves Alaska, and Sea-Land, who serves Alaska, neither of which company is under the subsidy program, has no restrictions on them whatsoever. But the fact of the matter is that we do not just, in an abstract, increase tonnage there. We do it in the marketplace when you see the marketplace needs the tonnage. And, indeed, there is daily sailings between the lower 48 and Alaska.

And with regard to pricing, for instance, it is not necessarily the shipping companies, but our service into the Anchorage-Whittier area is now marketed and run by the Alaska Railroad, albeit with an American-flag crew because we time charter our vessels to them. So, it is not necessarily that this bill would lock it in and prevent more competition. Indeed, those who are not in the MSP program, such as Tote, would continue to be able to increase their service and increase their capacity, and other companies who are not in the program.

Senator STEVENS. But you will not decrease your rates. You are, by definition, going to continue to increase your rates. Why cannot we get service by all of the vessels that are subsidized? Why should Alaska be locked into two carriers or three carriers that are not subsidized at all? Hawaii gets those services, even Puerto Rico gets some of those services. We do not get services by any vessels that are in any way subsidized, and this law will make it certain we never will.

Mr. VERDON. Well, Senator, Hawaii has the same rules as Alaska.

Senator STEVENS. Not quite. They have some exceptions, as you know.

Mr. VERDON. Except for the through-buy service where a carrier can go to Hawaii and continue on to the Far East. But even under this bill, they will not be able to do that with a subsidized vessel or an MSP vessel.

Senator STEVENS. Well, why not? Why should we be discriminated against? Those vessels are U.S. built, they are U.S. manned, they are U.S. operated and in foreign trade. Why cannot we be included in the foreign trade?

Mr. VERDON. Senator, I think the answer that you would receive from not only a domestic carrier like Crowley, who has feet in both areas, international and domestic, but an exclusive domestic operator would answer that question by saying if the foreign operators

were able to come in and receive MSP payments, it would chill the growth of the domestic market.

A company—and just use them as an example—such as Tote may be hard pressed to invest $300 million in the last several years on new vessels if they knew that somebody of APL's size was hanging over the market and could come in there. And that would be true with Matson in Hawaii.

If Matson knew that everybody who receives MSP payments; namely seven or eight American-flag companies, would have unfettered rights to go in there and have the opportunity to do that while they were receiving subsidy moneys which are fungible and having built their vessels, that make up the base of their company, in a foreign market, they would be afraid that they would skim the trade and be able to come in there and put the domestic, exclusive domestic operators out of business.

Senator STEVENS. Well, I have got to tell you, back at the time when we had regulated air carriers, that is exactly what I heard. And we faced deregulation of the air carriers, people told me Alaska Airlines could never afford to run to Alaska all year round and still have any lines that would extend down into the south 48. We opened up competition. Alaska Airlines did get competition. They went and competed with everyone all the way down into Mexico, into Phoenix, into Palm Springs, all over.

We have fairly seasonable traffic for both air transportation and for ocean transportation. You are not running to my State 12 months out of the as, particularly up into the North Slope or into the supply lines for the fishing industry. These are fairly seasonal trades. I think that the other shippers would come in.

Gentlemen, you are all my good friends, but suddenly I see that Alaska will be locked in by this bill forever. You know, we do not change bills like this very easily when you are just one State affected by a national law. When this becomes law, it is law forever, just like the Jones Act is law forever. Now, we are willing to live under the law, but why should I permit this to become law without some real protest, if it means we cannot get new competition without the approval of the Secretary of Transportation?

Mr. VERDON. Well, Senator, I think you can get new competition. For instance, Crowley, who is in Alaska already and would receive MSP payments under this, we are not limited forever. In fact, we can grow in lockstep with the growth of the State of the Alaska, the Commonwealth of Puerto Rico, and the State of Hawaii. So, that if the Alaskan economy grows 10 percent, we can increase our capacity 10 percent.

Senator STEVENS. But you cannot cross-subsidize the trade to my State the way you can everywhere else in the country, can you? You will not be able to use that subsidized carriage into Alaska at all. We will not get any benefits from those rates at all. The only thing we get benefit from, thank God, is that you can earn money off the international trade and if you want, you can go over and invest it in domestic trade.

But we are not going to get any benefits of those rates. This is designed to hold down the rates so that you can compete in a foreign section. I applaud that, but what is holding down the rates to my State? My shippers and my towns are really up in arms. And

if you are not hearing it, I can tell you I am hearing it. And I do not think you are listening to those of us who are trying to help you.

Why should not this subsidy be extended to the total Alaska trade on the basis of a foreign concept. We pay our Army people as though they are overseas. We pay allowances for almost everything because, in fact, Congress recognizes that it is 2,025 miles up there. My God, it is 4,000 miles out to Dutch Harbor.

We have got the largest fish landing port in the United States and we cannot ship the product of our fisheries to our own markets because—and they go overseas from there, as you know, because they cannot afford to ship back to our own markets. And so they go overseas on foreign carriers and they come back into our market as imports. Our fish is imported into the United States from foreign markets, foreign processors.

Now, I tell you, I think you all ought to get together and think this over again, because Alaska is going to grow, it has got to grow, and it is has got to have a new economy that is not oil based, and it is going to be based on volume shipping. We must get the rates down. I tried to help with Sea-Land, John, you know, to see if we could get the same arrangements as Hawaii. If you could come back to Dutch Harbor and pick up that fish, you could bring it into San Francisco or Seattle or Tacoma and we could compete with any fish in the United States. But, now it goes the other way on a foreign ship, and then it comes all the way back and comes in. And where does it come in? Rhode Island, for God's sake. [Laughter.]

It really does, you know, it does. You do not even know it is Alaska fish, and it is the largest, best fishery left in the world. But we are exporting it all because we do not have competitive shipping rates.

Now, I have been here 25 years and I have supported you and maritime reform all these years, but I am rethinking this now because the people in Alaska's cities up there are rethinking it. They say we are holding down their rate of growth, their ability to shift to new economies from an oil economy because they cannot compete because of shipping rates.

And you have got the clippings here. I do not want to read them. The would sort of inflame the situation more than I already have, Mr. Chairman. [Laughter.]

But you guys have to help us somehow. You cannot remain out there on the end of this string and pay increased shipping rates forever.

Senator BREAUX. We are going to take a recess. I thank the Senator. Senator Stevens and I are going to walk over and work this thing out and come right back. [Laughter.]

[A brief recess was taken.]

Senator BREAUX. The committee will please come to order. Senator Stevens and I have worked it out. We have agreed to sell Alaska. [Laughter.]

Let me follow up with a couple of questions. Mr. Johnsen, with regard to your company in particular, in the administration's proposed bill carriers, as I understand it, will not be able to reserve the slots in the program for use at a later date. How does that affect your operations in particular?

Mr. JOHNSEN. Mr. Chairman, we have ... currently under a charter to the military ... agreement amongst our colleagues ... restriction under which we are working ... ommend that there is a reasonable period ... such as ours would have in order to ... And we are thinking of a 2-year period ... slots.

Senator BREAUX. Senator Lott ... nize him.

Senator LOTT. Thank you very much ... the fact that you are having this ... thank this distinguished panel for ... portant part of trying to find a ... come up with actually work.

Let me maybe address ... the administration's proposal ... U.S. liner operators to ... U.S. flag?

Mr. SNOW. Senator, I would ... for doing that. We have ... my longer testimony.

A couple of key things ... tion bill—one is to make ... not taken into the program ... not made explicit in the ... in the House bill.

Second, I think the ... would make explicit that ... ships designed to ... program, and I would ... program as that is ... logically advanced ... really excellent. ... framework as well ... visions from each ... Senator LOTT. ... matter of fact, ... Let me ask ... tion's payment ... million for the ...

Mr. ... this subcommittee, my name is ... the Seafarers International Union ... me today is the president of the ... Mike McKay; the president of the ... my good friend, Timothy Brown; the ... of District 1-MEBA, Joel Bem; and Tal ... of the National Maritime Union.

... present more than 50,000 men and women ... licensed and unlicensed seagoing ... this subcommittee, the House Merchant ... Committee, as well as President Clinton, ... retary Peña, and Maritime Administrator ... the praise of the American people and especially ... earn our living on or near the water for the leader- ... shown in the last year.

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Senator LOTT. Mr. Lillie, if I could, as the president there at APL, why are you not willing to commit to enroll all of your vessels into the new program at this time?

Mr. LILLIE. Yes, Senator Lott, and thank you for being here and the support you have given us. In our earlier discussion, I think before you joined the room, we discussed the issue of new buildings, and the economics associated with new ships, which will amount to over one-half of our capacity in 1996 are different from existing ships. And we have to be able to look at how this program comes into reality.

The passing of the legislation is a necessary condition, but it is not totally sufficient. There are other issues that relate to our overall level playing field—economics, tax, the collective bargaining process with labor—and creating the productive environment that is anticipated here. Those things all have to come together just right.

And they may come together right for some ships and not for others, so we think there has to be an economic choice which drives the decision to participate, rather than an all-or-nothing situation.

Senator LOTT. Is there something specifically that we could do or should do that could help you enroll all of your vessels? You mentioned tax considerations which would before a different committee, but if you had to name one or two things what would it be that would be most helpful to you in getting that done?

Mr. LILLIE. There are two things that I brought up earlier. One, of course, relates to in a 10-year program we need to be able to see that if there is no follow-on to that, that a ship can be reflagged if necessary.

This is particularly important for new buildings because obviously you have then a 10-year-old asset that has got another 15 years to go that may be noneconomic. So, that issue is, we think, a very important one.

Of course the tax issue, which we have not talked very much about but is covered by H.R. 2152 and we think adequately, is an important one in looking at the capital side of a new building.

So, those would be two areas that I would highlight.

Senator LOTT. Thank you, sir. Mr. Shapiro, what is your understanding as to why the administration did not include bulk carriers in the maritime reform proposal?

Mr. SHAPIRO. I have no understanding as to why, Senator. I wish I could elaborate on that and give you some reasons why it has been excluded. It is hard for the bulk sector to understand how we, who make up more than one-half of the U.S.-flag fleet vessels and provide more than one-half of the oceangoing billets have not been deemed to be a substantial enough component of this industry to be included.

I might submit to you that there may be some philosophy in the Defense Department that as a result of the Desert Storm experience where we had 6 months to deploy in the wealthiest nation's backyard, with all the jet fuel that we could burn for practice runs and real runs during the military operation, that all future fighting scenarios are going to be similar.

I would tend to believe that the Persian Gulf scenario was the exception rather than the rule, and bulk carriers which carry the

commodities, equipment, ammunition, and food to our troops abroad, as well as the necessary oil to supply our military machines should be included in any military contingency program.

Senator LOTT. Thank you, Mr. Chairman. I know you have another panel or two, so I will reserve these questions for other opportunities. Thank you.

Senator BREAUX. I want to thank this first panel. You all have been involved in this for a number of years, and we thank you for continuing to work with us as we get one step closer to a real maritime reform plan. We thank you for being with us. We are making progress.

Let me excuse this panel, and thank them for being with us, and invite up our second panel consisting of Michael Sacco, president of the Seafarers International; Capt. Timothy Brown, president of the International Organization of Masters, Mates and Pilots; Michael McKay, president of American Maritime Officers; Tal Simpkins, executive director, AFL–CIO Maritime Committee; and Joel Bem, who is director of legislative and political affairs for District 1 of MEBA.

Gentlemen, we welcome you. And it is my understanding Mr. Sacco, you will present the testimony on behalf of the panel. We welcome you.

STATEMENT OF MICHAEL SACCO, PRESIDENT, SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA; ACCOMPANIED BY CAPT. TIMOTHY A. BROWN, PRESIDENT, INTERNATIONAL ORGANIZATION OF MASTERS, MATES & PILOTS; MICHAEL McKAY, PRESIDENT, AMERICAN MARITIME OFFICERS; TALMAGE E. SIMPKINS, EXECUTIVE DIRECTOR, AFL–CIO MARITIME COMMITTEE; AND JOEL BEM, PRESIDENT, DISTRICT 1-MEBA

Mr. SACCO. Thank you, Mr. Chairman.

Thank you for your leadership on maritime reform. I know we would not be sitting here today had it not been for your support. We want to thank you very, very much.

Mr. Chairman and members of the subcommittee, my name is Michael Sacco. I am president of the Seafarers International Union of North America, AFL–CIO. With me today is the president of the American Maritime Officers, Mike McKay; the president of the Masters, Mates and Pilots, my good friend, Timothy Brown; the newly appointed president of District 1-MEBA, Joel Bem; and Tal Simpkins, representative of the National Maritime Union.

Mr. Chairman, we represent more than 50,000 men and women who comprise America's licensed and unlicensed seagoing workforce. Members of this subcommittee, the House Merchant Marine and Fisheries Committee, as well as President Clinton, Transportation Secretary Peña, and Maritime Administrator Herberger deserve the praise of the American people and especially those of us who earn our living on or near the water for the leadership they have shown in the last year.

Maritime reform has finally risen to the top of the N n's agenda, and we now have a chance to see a vital industry r .

As history demonstrates, the commitment of the P t t United States to a strong American merchant mari

to the enactment of any forward looking maritime legislation. We believe that with the support of President Clinton we now have an opportunity to enact a viable program.

It is impossible to overemphasize the importance of enacting maritime reform legislation this year. Our country's security, the survival of our industry, and thousands of American jobs are at stake.

The question of whether the United States of America will or will not have a merchant marine will be decided this year, and it is going to be decided by the Congress of the United States.

However, in putting together a program it is important that we do not enact maritime reform legislation which gives unwarranted status to a so-called effective U.S. controlled fleet.

The only vessels under the control of the United States are those that fly the U.S. flag and are crewed by U.S. citizens. They are the only vessels that have on every occasion responded to our Nation's call and will do so in the future.

We must not delude ourselves or the American people by believing that a foreign-flag fleet achieves a special status because we give it a special name. The choice is simple. Enact maritime revitalization legislation which helps develop a more efficient, more economical, and more competitive American-flag merchant marine, or to encourage the exodus of vessels, tax revenues, and jobs from our country.

To this end, maritime labor is totally united in our commitment to help enact meaningful and realistic maritime revitalization legislation this year.

The jobs of the people we represent are at stake. We cannot and will not accept a proposition that somehow and in some way our country will be better served by a maritime policy grounded on the use of foreign-flag and foreign-crewed ships.

The proposed across-the-board increase in the existing tonnage duties represents a fair approach to obtaining money needed by our country to ensure the availability of a U.S.-flag commercial fleet.

You know, this is a small price to pay by others who have enjoyed the virtually unrestricted right to carry American goods and passengers, and to profit greatly without paying taxes to our Government, or employing American seafaring personnel, or complying with a host of rules and regulations, which you heard the operators address today before your committee, that are applied to American-flag vessels and not to their own.

We strongly urge this committee and the Congress to support the funding mechanism recommended by the administration. We believe it is important to emphasize that the United States has throughout its history needed and relied upon a fleet of U.S.-flag merchant vessels much larger than the proposed maritime security fleet.

It is important to the economic and military security of the Nation that we continue to explore and pursue every realistic opportunity to expand the U.S.-flag merchant marine. You have heard some suggestions today from the operators on how to do that.

Additional funding sources and ways to increase the number of vessels able to participate in the maritime security fleet, as well as

other direct and indirect maritime promotional programs utilized by our competitors should be seriously considered.

Maritime labor appreciates the efforts to date to obtain funding for the proposed maritime security fleet. We simply ask all parties concerned about the maritime capability of our Nation to work with us so that the maritime security fleet becomes the start of a revitalized U.S.-flag merchant marine, and not the end.

S. 1945 contains far-reaching and significant changes in current policies and removes many of the barriers to greater U.S.-flag competitiveness. We genuinely support such proposals and are committed to legislation which helps reduce costs and increase efficiency consistent with the overall commitment to American-flag vessels and American maritime jobs.

During House consideration last year of its maritime revitalization bill, maritime labor agreed to support language which allows limited and specific exceptions to the existing requirement that U.S. Government approval is required before a vessel can be transferred to foreign registry.

We remain convinced that maritime revitalization legislation should first and foremost encourage a U.S.-flag fleet, not a foreign-flag fleet.

Consequently, we believe that only limited exceptions to the normal approval procedure should be considered. We support the provision included in H.R. 2151, which formally requires for the first time that the Government assess the impact of a proposed reflagging on maritime employment.

We strongly urge that the provisions in H.R. 2151, which grants maritime labor legal standing to participate in all proceedings under Section 9 of the Shipping Act of 1916, be included in S. 1945.

There are, of course, a number of issues within S. 1945 which must be addressed and which are presently being discussed among ourselves and with the vessel operators.

For example, we are particularly concerned about how much flexibility the vessel operators should be given to acquire, own, and operate foreign-flag ships and to use these vessels in competition with U.S.-flag vessels. We are equally seriously concerned about the situation concerning American shipyards and the plight of American workers in the shipbuilding industry.

We stand ready to work with our brothers and sisters in the shipbuilding industry to fight for a funding mechanism that will support and implement the vessel construction series transition program included in H.R. 2151. We suggest that if Congress moves forward with legislation to combat foreign shipbuilding subsidies, it earmark the funds collected through any penalty provision for this U.S.-ship construction program.

This concludes our statement, and we would be happy to answer any of your questions. Thank you, Mr. Chairman.

[The prepared statement of Mr. Sacco follows:]

PREPARED STATEMENT OF AMERICAN MARITIME OFFICERS; DISTRICT 1—MARINE ENGINEERS BENEFICIAL ASSOCIATION; DISTRICT 4—NATIONAL MARITIME UNION/MEBA; INTERNATIONAL ORGANIZATION OF MASTERS, MATES & PILOTS; AND SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA

I am Michael Sacco, President of the Seafarers International Union of No America. I am extremely pleased to present this statement in behalf of the /

ican Maritime Officers; District No. 1-Marine Engineers Beneficial Association; District No. 4-National Maritime Union/Marine Engineers Beneficial Association; International Organization of Masters, Mates & Pilots; and the Seafarers International Union of North America. Together, we represent the more than 50,000 men and women who comprise America's licensed and unlicensed seagoing work force.

At the outset, we wish to convey our deep appreciation to you, Mr. Chairman, for your persistent efforts in support of the United States-flag merchant marine and maritime revitalization legislation. There is no doubt that your leadership and the leadership of Chairmen Hollings, Studds, and Lipinski and the Members of this Committee and the Merchant Marine and Fisheries Committee has been the critical element in the development of policies to rebuild our fleet and in the progress that has been achieved so far to enact maritime revitalization legislation.

We also want to acknowledge the efforts of Transportation Secretary Frederico Peña and Maritime Administrator Admiral Albert Herberger in behalf of the United States maritime industry. They have been subjected to a constant barrage of misinformation and attack from individuals in and out of government who refuse to recognize the contributions made by our merchant marine to our nation's economy and military security. Yet despite this pressure, Secretary Peña and Admiral Herberger have never wavered in their conviction the United States must and will have a fleet of United States-flag commercial vessels manned by American citizen crews. Secretary Peña and Admiral Herberger have reduced the risk that the United States-flag merchant marine will cease to exist.

Together, they have worked with President Clinton to develop the proposal which follows through on the commitment made by President Clinton to assist our nation's maritime industry and to help preserve the tens of thousands of jobs it provides for American workers. This commitment from the President of the United States is vital. The commitment of the President of the United States to a strong American merchant marine is an essential ingredient to the enactment of any forward-looking maritime legislation. This was the case, for example, in the enactment of both the Merchant Marine Act of 1936 and tho Merchant Marine Act of 1970, statutes which have long served as the underpinning of the oceangoing United States-flag commercial fleet. In the absence of the active efforts of Presidents Franklin Roosevelt and Richard Nixon it is doubtful that these measures would have been enacted into law.

The programs embodied in these Acts have served our industry and our nation well, but virtually no program or policy is so flexible and elastic that it can function without change in the rapidly and constantly changing world of international shipping. We believe that with the support of President Clinton and his Administration we have the opportunity to enact legislation this year which will help the United States-flag fleet become competitive in the global commercial shipping trade. Legislation can and should be enacted which addresses the realities of today's international shipping environment just as the Operating Differential Subsidy program and its related regulations helped our fleet function in a time when our country set the standard for the rest of the world's shipping.

It is impossible to overemphasize the importance of enacting maritime revitalization legislation this year. Our country's security, the survival of our industry and thousands of American jobs are at stake. The question of whether the United States of America, once the world's leading maritime power, will or will not have a merchant marine will be decided this year. This decision will be made by the Congress of the United States.

It is also impossible to overemphasize the importance of enacting maritime revitalization legislation which does not give a totally unwarranted and misleading status to a so-called effective United States controlled fleet. In our opinion, there is no such thing as a truly effective United States controlled fleet. The only fleet under the real control of the United States is a United States-flag, United States citizen crewed fleet. This is the only fleet under the real requisition authority of the United States. This is the only fleet that has on every occasion responded to our nation's call. This is the only fleet that will respond to a national emergency as contemplated by S. 1945. We must not delude ourselves or the American people by creating the fiction that a foreign flag fleet achieves a special status simply because we give it a special name.

To us, the choice is simple: enact maritime revitalization legislation which helps develop a more efficient, more economical, more competitive United States-flag merchant marine, or encourage the exodus of vessels, tax revenues and jobs from our country overseas. We are confident that the Congress also wants a revitalized United States-flag merchant marine, and not the end of the United States as an international maritime power.

To this end, maritime labor is totally united in our commitment to do everything within our power to help you, Mr. Chairman, enact meaningful and realistic mari-

time revitalization legislation this year. No one is more aware than we are that the jobs of the mariners we represent are at risk. These jobs and the American mariners and their families depend directly on the success of Congress this year to put in place the statutory and regulatory framework necessary to carry our industry into the 21st century.

We are pleased S. 1945, the proposed Maritime Security and Trade Act of 1994, as well as HR 2151, the House-passed Maritime Security and Competitiveness Act of 1993, are premised on the fact that the United States-flag merchant marine is important to our nation's economic growth and its military sealift preparedness and capability. Both bills recognize what we have always believed: the United States must have a fleet of commercial vessels under our own flag and crewed by United States citizens. The interests of the United States will not be served by the disappearance of United States-flag vessels from the sealanes of the world. The interests of the United States will not be served when all our commerce is carried by foreign flag, foreign crewed vessels and our commercial sealift capability is completely within the control of foreign shipping interests.

SIZE OF PROGRAM

We are especially pleased the Administration has coupled its maritime policy changes with a specific funding mechanism to support its proposed ten-year, $1 billion program. The proposed increase in the existing tonnage duties represents a fair approach to obtaining money needed by our country to ensure the availability of United States-flag commercial fleet. In this regard we note that Secretary Peña estimated the value of services provided by the Coast Guard alone at $800 million annually, far more than the $100 million per year to be generated by the increase in the tonnage duties. We believe this increase is a small price to pay by others who have enjoyed the virtually unrestricted right to carry American goods and passengers and to profit greatly without paying taxes to our government, employing American seafaring personnel, or complying with a veritable host of rules and regulations that are applied to American flag vessels but not to their own. Without the checks and balances provided by the United States-flag merchant marine, our nation will be vulnerable to blackmail. Perhaps even more importantly, without our own fleet of vessels and their loyal American crews, our foreign policy and international programs can be held hostage by those who control the shipping capability necessary to implement such objectives.

We strongly urge this Committee and the Congress to support the funding mechanism recommended by the Clinton Administration. To do otherwise will likely mean that the estimated 52 ships it will support will be lost to the American flag, along with the American jobs they provide.

At the same time we believe it is important to emphasize that the United States has throughout our history needed and relied upon a fleet of United States-flag vessels much larger than the proposed maritime security fleet. It is important to the future economic and military security of our nation that we continue to explore and pursue every realistic opportunity to expand the United States-flag merchant marine. Additional funding sources and mechanisms to increase the number of vessels able to participate in the maritime security fleet, as well as other direct and indirect maritime promotional programs including those utilized by our competitors, should be seriously considered. For example, we note that a number of maritime nations have lax regimes that benefit their seamen when employed on vessels engaged in international trade.

Let there be no misunderstanding: maritime labor appreciates the efforts to date to obtain funding for the proposed maritime security fleet and we support the proposed tonnage tax increase. We simply ask all parties concerned about the maritime capability of our nation to work with us so that the maritime security fleet becomes the start of a revitalized United States-flag merchant marine, and not the end.

ELIGIBLE VESSELS

We recognize that S. 1945 reflects the Administration's position that the maritime security fleet be comprised of new, modern United States-flag commercial vessels. We share this goal and objective. We also believe that the legislation enacted by Congress should enable American vessel operators to attain this goal and to allow them to do so in such a fashion that American jobs and American flag ships are not lost unnecessarily.

For example, we understand the enforcement of United States Coast Guard-imposed vessel construction standards on United States-flag commercial vessels adds significantly to the cost of operating American ships. These standards, in addition to and different from internationally accepted standards, simply increase the cost

of doing business under the United States flag with no apparent resultant offsetting benefit. We firmly believe this difference must be eliminated.

As you know, Mr. Chairman, United States-flag vessels overall carry only approximately 4 percent of our nation's foreign trade. Consequently, 96 percent of our trade moves in and out of American ports on vessels that are presently unable to sail under the American flag. To us, this makes absolutely no sense. If Coast Guard standards are absolutely essential to protect life and property at sea and to safeguard the marine environment, especially within United States waters and ports, then no vessel or crew which fails to meet these standards should be allowed into United States waters or entry into a United States port. If this is not the case, then we strongly urge that S. 1945 be amended to specifically provide that vessels otherwise eligible to participate in the maritime security fleet program will remain eligible if constructed, maintained and inspected in accordance with international standards and norms.

Second, S. 1945 would make ineligible for participation in the new program United states-flag vessels over the age of 15 years. With the end of funding for the Construction Differential Subsidy program more than a decade ago, and the proliferation of foreign shipbuilding subsidies, it has been virtually impossible for American companies to build or acquire in the United States competitive United States-flag vessels. In other words, their failure to upgrade and modernize their fleets is due almost entirely to factors totally beyond their control.

The legislation, however, contains a provision waiving this age restriction when the Secretary of Transportation, in consultation with the Secretary of Defense, determines that a vessel over the age of 15 years is eligible for inclusion in the program and it is in the national interest to do so. While all maritime labor recognizes the need for administrative flexibility on the vessel age issue, we are not in complete agreement as to the scope of this authority. We are continuing discussions among ourselves on this issue and we are confident that a common position can be reached.

Third, as introduced S. 1945 defines as an eligible vessel for participation in the maritime security fleet a liner vessel which, among other things, is operated by an ocean common carrier as defined in the Shipping Act of 1984. Our concern is that this particular requirement may be unnecessarily restrictive and will preclude the participation of vessels which may be otherwise eligible and desirable. We believe, for example, United States-flag vessels operating under a contract or charter arrangement rather than on an ocean common carrier basis should be eligible for participation in the proposed new program.

We do not believe that companies which operate United States-flag vessels as a contract carrier or operate vessels under charter to the United States government should, solely because either of these factors exist, be statutorily precluded from offering such vessels for participation in the maritime security fleet. We strongly urge that S. 1945 be amended to correct this situation.

REGULATORY REFORM

Maritime labor has consistently supported the enactment of maritime revitalization legislation which encourages the growth of a United States-flag, United States crewed fleet of vessels. Only American flag vessels are truly under the control of the United States and ready to respond as they have always in the past, to our nation's call in time of war or emergency.

Maritime labor is willing to acknowledge the legitimate needs of American vessel operators as they attempt to compete with less regulated, more highly subsidized foreign flag ships. We understand United States budgetary constraints mean that at least in the short term, not every United States-flag vessel will be able to participate in the proposed maritime security fleet. We further understand that to better achieve the goals and objectives leading to a stronger, larger, more competitive United States-flag merchant marine, the American vessel operators must be freed from many of the regulatory constraints associated with the Operating Differential Subsidy program, including those relating to the acquisition of vessels and the operation of vessels on essential trade routes.

S. 1945 is not business as usual for our industry. It contains far reaching and significant changes in current policies and removes many of the barriers to greater United State-flag competitiveness. We generally support such proposals and are committed to legislation which helps roduce costs and increase efficiency, consistent with the overall commitment to American flag vessels and American maritime jobs.

In this regard, during consideration last year of maritime revitalization in the House of Representatives, maritimo labor agreed to support language which allows limited and specific exceptions to the existing requirement in section 9 of the Ship-

ng Act of 1916 that United States government approval is required before a vessel n be transferred to a foreign registry. At that time, and in the context of that legslation, we agreed a United States-flag vessel may be placed under a foreign regtry without the approval of the government if the vessel will be replaced under e United States-flag by a vessel of comparable size which is not more than ten ars of age or if an eligible vessel is denied participation in the maritime security et due solely to the non-availability of funds.

While we can appreciate the desire on the part of American vessel operators to ve greater flexibility and freedom to remove vessels from the American flag, we main convinced that maritime revitalization legislation should first and foremost courage a United States-flag, not a foreign flag fleet. Consequently, we believe at only limited exceptions to the normal section 9 procedures, such as those adopt- last year, should be considerod. We believe any provision which grants an opera- r blanket authority to remove from the American flag vessels eligible for the marine security fleet for which program funds are available is contrary to the best inrests of our industry and the goals and objectives of this legislation.

We support the provision included in HR 2151 which formally requires, for the st time, that the United States government assess the impact of a proposed flagging on maritime employment. Clearly, the continued availability of an active, ained American seagoing workforce is more critical to our nation's security than nply having access to the vessels themselves. Consequently, we strongly urge that e provision included in HR 2151 which grants maritime labor legal standing to rticipate in all proceedings under section 9 of the Shipping Act of 1916 be inded in S. 1945.

There are, of course, a number of other issues within S. 1945 which must be adessed and which we are presently discussing among ourselves and with the vessel erators. For example, we are particularly concerned about how much flexibility aritime security fleet vessel operators should be given to acquire, own and operate reign flag ships and to use these vessels in competition with United States-flag ssels. We are particularly concerned that such American owned foreign flag vesls not be able to deprive American flag vessels of their right to carry United ates government generated cargo under the cargo preference statutes of 1904 and 54.

We are equally and seriously concerned about the situation confronting American ipyards and the plight of American workers in the shipbuilding industry. Coness and the Administration through the recently-announced revitalized Title XI an guarantee program, the sealift fund for shipbuilding and the program imple-ented through the Advanced Research Projects Agency (ARPA), have recognized d responded substantially to the legitimate needs of this vitally important indus-r.

We understand the argument put forth by American shipbuilders that foreign ipbuilding subsidies have virtually eliminated any opportunity for domestic yards compete on an equal footing with their foreign counterparts. Our segment of the aritime industry too is victimized by direct and indirect foreign government subdies which significantly favor their national flag fleets. This is why we are pleased ograms are being implemented to assist United States yards, and why we strongly pport the enactment of maritime revitalization legislation. We recognize that the lministration's proposed increase in the tonnage duty does not include funds for ipbuilding, but we do not believe the increase as proposed will generate sufficient nds to support both the maritime security fleet and the vessel series transition ogram. We therefore stand ready to work with our brothers in the shipbuilding dor industry to fight for a funding mechanism that will support and implement e vessel construction series transition program included in HR 2151. We suggest at if Congress moves forward with legislation to combat foreign shipbuilding subdies it earmarks the funds collected through any penalty provisions for this United ates ship construction program. We must not continue to allow American shipards and their workers to suffer the consequences of unfair foreign trade practices.

In conclusion, we again wish to express our deep appreciation to you Mr. Chairan, and your staff for scheduling these hearings so soon after the transmittal of e Administration's maritime policy initiative. We assure you of our support for is effort and our commitment to help fashion and enact maritime revitalization gislation this year.

Senator LOTT. Mr. Chairman would you yield for one second, beuse I do have a meeting I am going to have to go to, and then will come back, but I just wanted to thank this panel for being ere. I enjoyed your statement. You have got a lot of nods out of

me, and we appreciate your involvement over the years and your being here, and I know you are going to continue to work to make sure that we get the best possible bill to accomplish the goals you are calling for there. Thank you very much.

Mr. SACCO. Thank you very much, Senator. We really appreciate your support.

Senator BREAUX. Thank you, Senator Lott. He will be back for our next panel when he finishes his next meeting.

Let me just ask and thank all of you—I mean, I know you represent literally thousands of men and women that are concerned throughout this country and overseas about what we do in this committee on this legislation, and whether you are a shipowner or someone who sails on a ship, we have been working on this for so long, and I think we are at least getting right down to the wire, as the testimony indicates.

Give me something from you gentlemen and others who understand what is going on that I can argue on the floor of the Senate in support of this proposal when some less-informed Members of the Senate may say that this whole program is not necessary.

The reason we have problems is because the union and men and women who sail our vessels are just demanding wages that are unrealistic. We pay our captains and our mates and our seamen on these vessels far too much. We have too many of them working on board these vessels, even compared to other countries, and the problem with our maritime industry is just that the unions are not doing a good job in dealing with wages and working conditions and what-have-you.

What would you all say in response to that type of statement, coming from perhaps someone who is less informed?

Captain BROWN. Senator, I think you have given me an opening to talk about something that I have wanted to talk about in this type of forum for quite some time. There was a story in the Journal of Commerce, oh, probably 6, 8 months ago, and the figure that was quickly seized upon was that the captain on a merchant ship makes $44,000 a month.

Senator BREAUX. I have heard that every time we go to the floor.

Captain BROWN. I am sure that Senator Grassley will tell you that a lot. First off, that particular study and the master mates and pilots, and I believe all the seagoing unions, had some input into that study.

Unfortunately in this particular case they did not do what we were told to do in fourth grade, or actually they did, they carried the 1, right, so instead the figure is probably $34,000. That is still an awful lot of money. In fact, when the $44,000 was quoted in the paper, I got two phone calls from members' wives who wanted to know where the money was, positive their husband was holding out the money.

That $34,000 represents the cost of employing two men, not one man, and that includes the entire price of covering their health care, their training, their pensions, their IRAP's and other supplemental payments which are normal and customary in private industry wherever you go.

Senator BREAUX. Do you have any idea how that would compare to the captain of, say, an airline?

Captain BROWN. I would say that we are probably—in relationship to the airline pilot, I think the captains of the merchant ships are probably underpaid in terms of that, and they work far more hours.

Senator BREAUX. Does anybody else have anything to add to that from their perspectives?

Mr. SIMPKINS. The International Labor Organization minimum, the International Labor Organization International, which the United States belongs to, at minimum for an able-bodied seaman is $356 a month. No overtime, no fringe, no nothing.

Senator BREAUX. Is that for our U.S. able-bodied seamen, or is that a worldwide——

Mr. SIMPKINS. That is worldwide suggestion, a minimum. That translates to less than $1 an hour. One-half of the ships coming to the States do not pay their AB $356 a month, and you hear this quite often about an American seaman being overpaid. It just is not so.

When you compare them to a shoreside industry for the number of hours and the job that they do, they are underpaid, and plus that, approximately 40 percent of their total earnings go to taxes.

Senator BREAUX. Well, I appreciate that, because you all have heard the arguments before, that we have had to always try and address when they argue the points that we have just been discussing, and I think what you have said has been very helpful.

Let me make this suggestion. I have suggested that after looking at the administration's request to fund the Ready Reserve Fleet this year, it is approximately $250 million to basically provide for operation and maintenance for approximately 100 ships that are in what we call a Ready Reserve.

About 48 of those ships, as I understand it, are bulkers. It has been suggested that we could take about 28 of those 48 bulkers out of the Ready Reserve Fleet and just get rid of them, and that would still leave approximately 20 bulkers in the Ready Reserve Fleet, but to sell off 28 of those ships would allow us to generate about $50 million a year in money that we would not have to spend for operation and maintenance and to use that $50 million to add to the pot of money we receive from the tonnage fees, and then have a program that increases the number of ships that would be operating from approximately 52 ships up to somewhere around 75, or maybe a little bit more with that additional $50 million.

Do you gentlemen have any comment about that from the perspective of whether that is a good way to meet our national security requirements? The argument that I am looking at, and if you disagree let me know, is that I would rather have operating ships with able-bodied crewmen and women who work every day on ships that run every day, that the national security people could call on that would be ready and available, as opposed to going to an RRF fleet and try to get into place ships that have been sitting up with crews that we do not have.

Can anybody comment on that?

Captain BROWN. I think we revisit this every couple of years, do we have a large standing fleet, and suddenly we can make that available in time of national defense, and I think the basic thing we overlook is that there are not going to be people to sail those

ships if the current fleet continues to dwindle down, so you are not going to have bodies to sail that.

It is even harder now, because the Coast Guard is now mandating that we keep our documents alive by paying dollars, and people who retire are not going to keep their documentations alive to sail on ships which may never sail again, and so I support your comments. I think it is a great idea. There is no point in having a merchant marine reserve, if you will, without having an active and viable merchant marine.

Senator BREAUX. Is it fair to say that in many cases the Ready Reserve Fleet is really not ready, because it does not have access?

Captain BROWN. It is in reserve, though, Senator.

Senator BREAUX. It is in serious reserve, but it is not ready because of the unavailability of operating men and women to run those ships immediately, when they are needed. Is that a correct statement?

Captain BROWN. I think it is a fair statement. I am going to let my engineering friend, Joel Bem, talk about that. Plants and engineering things are made to be run. It is like a generator. A generator has some peak level. When you shut down a generator for a long period of time, the chances of getting that generator back up again are very, very limited. However, this is my expert on those issues.

Senator BREAUX. Mr. Bem.

Mr. BEM. Tim is correct in that assessment. A comment on the earlier proposal, one danger I think we ought to look at, if we in fact do take this 26-ship group and scrap them and use that $50 million, we would hope that it would be to enhance the program, because I think your assessment is correct, that a 52-ship program is not adequate.

The danger, of course, is if you get that $50 million and somebody says, "Well, geez, we can put that in as part of the 52-ship program and cut the other financial requirements to sustain it."

Tim and I, and I guess Mike and just about all of us that are involved in the unions have been through ship activations. Most of us go back at least to Vietnam, some of us maybe even farther. I am not going to comment on Mike. I do not know how far back he goes, but I know I was involved firsthand in the Vietnam sealift.

I took ships out of deep layup. It is not a pleasant experience. The equipment generally does not function well. I think if we look at the history of the Vietnam sealift, it was successful, but there were certainly situations where ships did not make it. There were ships that unfortunately went down with all hands on board.

Senator BREAUX. Did we not have problems with Desert Storm as well in our more recent experiences?

Mr. BEM. One of the problems we had with Desert Storm, even though the scope of Desert Storm was relatively limited compared to, say, the Vietnam experience, was inadequate supply of seamen, officers, engineers to man the vessels in a timely fashion.

When you pull people out of reserve who have not been doing the job that a ship's person typically does every day, obviously their skills have deteriorated. When they come on board they are not going to be at the same level of skill that an everyday ship's officer, ship's engineer, or crewmember would be at, so even if you have

a merchant marine reserve force, it is not as good as a vessel with a ship's personnel on board doing the jobs they were supposed to do every day.

Senator BREAUX. Well, I think that the concept that we are suggesting, I think makes a great deal of sense, and I think that in talking to people who really know and understand how these programs work both within the Government and without the Government, it seems to be that there is general consensus developing that this is an area that we can move into to even make the day-to-day program that we are talking about larger, better, and provide more ships and more men and women ready to run those ships.

I want to thank all of you very much.

Mr. SACCO. Mr. Chairman, before you close, may I make a few comments?

Senator BREAUX. Sure.

Mr. SACCO. First of all, I think had it not been for the people in this room, Operation Desert Shield and Desert Storm would have been a total flop.

In terms of manpower, I think I can speak for almost everyone sitting at this table, for every one job that we had on a commercial ship, we had three men and women registered on the beach in reserve.

Had we not had that kind of reserve manpower on the beach, we would never have been able to man the RRF ships the way we did. The problem we had with the engineers was that the plants on these old ships were so old that they could not light the boilers. They could not get parts for those vessels.

So, your idea about scrapping the older RRF vessels and putting that money into a new program for automated ships I think is a good idea. Newer ships will help to reduce costs for the operator.

Mr. Chairman, the unions in this room have done everything they can to help reduce the cost of the operator. We have set up safety programs to make sure that our members when they go aboard ships are safety conscious, that we do not have any accidents, or we do not have any bad mistakes which could result in serious injury. We have set up cost-containment programs through our trustees to help reduce medical costs and contributions to the medical plan for the operator.

We have worked very hard. We have reduced crews, we have changed work rules, we have done just about everything we can to reduce the operator's costs.

Unless we have a program, a commercial program employing American seamen aboard these ships, eventually after time, 52 ships will not give you the manpower pool to crew these reserve vessels in times of crisis or war.

We have to increase the amount of ships in the commercial fleet and when you bring in, Mr. Chairman, highly automated vessels, the cost of those crews will come down again. We have told management, we have told our operators, when you bring in new vessels we will sit down with you and negotiate a pack that will make you more competitive in the marketplace.

That is where labor stands. Some of the unions on this panel are in negotiations right now. They are in negotiations as we speak,

and they are looking at ways to be more efficient, more productive to the company, and try to help reduce costs. We are doing our part.

Now, I want to emphasize that we are working very closely together, Mr. Chairman, to pass a maritime reform bill.

Senator BREAUX. Well, we thank you all for that. Maybe we can continue the negotiations in the back room right now. [Laughter.]

Now is the time to do it. I thank all of you. You have all made some real good presentations. We thank you for your involvement.

Let me invite up—and excuse this panel, and ask our next panel to come forward, and we will take their testimony.

John Stocker, president of the Shipbuilders Council of America, John Estes, president of the International Council of Cruise Lines, and Ms. Moya Phelleps, who is executive director of the Coal Exporters Association, an affiliate of the National Coal Association.

The gentleman on the side of Ms. Phelleps, do you want to identify yourself?

Mr. BARRETT. I am David Barrett with the National Grain & Feed Association, and we are part of the joint testimony that Moya Phelleps will be presenting.

Senator BREAUX. Let me ask Mr. Estes if you would go first. Mr. Lillie, Senator Lott wanted to maybe be here when you testify, so we will put you last. Mr. Estes, if you would go ahead.

STATEMENT OF JOHN T. ESTES, PRESIDENT, INTERNATIONAL COUNCIL OF CRUISE LINES

Mr. ESTES. Thank you, Mr. Chairman. We appreciate your kind invitation to have us here and to testify on this proposal. It is a matter of importance to us, and we do welcome this opportunity.

We, as you know, Mr. Chairman, are in the business of transporting passengers throughout the world, and not in the business of transporting goods, nor, of course, are we directly in the business involving the national security matters of the United States.

Our interests, Mr. Chairman, are more specifically defined as the maintenance of free, unimpeded flow of passenger shipping on open seas to and from all ports in all countries of the world.

S. 1945 would result in increasing the tax burden on our industry for the purpose of advancing American maritime cargo and security interests. It is this increased cost burden and its effect on us that I would like to comment on, and not on the underlying purpose of the legislation. We have no problem with the underlying purpose of the legislation. That is a matter that is in the wisdom of this committee and of the Senate.

Mr. Chairman, we have worked with your committee and the Senate in advancing U.S. maritime interests in a fair and equitable manner, and we will continue to do that. It is not our desire, nor is it in our interest, to be negative. It is in our interest to be positive; and we believe we have been a positive contributing factor to the efforts of you and of this committee, in developing maritime policy for the United States.

There are, however, certain matters of principle to which we would like to call your attention. As a matter of principle, Mr. Chairman, we do not oppose domestic policies which fairly advance

maritime interests of any country with which we call, whether it is the United States or any other country.

As a matter of principle, we hope, Mr. Chairman, that some form of funding not involving passenger shipping can be found, in order to make the program that is advanced a more positioned one, a more useful one, and indeed an effective one. As a matter of principle, Mr. Chairman, we do not encourage taxes designed to subsidize interests that are unrelated to us.

So, basically then, the problem we have with the proposal is that we are not in that loop; we are not involved in cargo matters, and we are not involved in the national security matters. Our basic tenets, as I said, are to encourage the free flow of commerce on the high seas everywhere; and that includes all ports, including those of the United States, where we come and go.

Our other basic tenet, Mr. Chairman, is to increase the positive economic influence that we have had on this country. We have been responsible for the creation of, literally, hundreds of thousands of jobs. We have been responsible for the payment of over $14 billion in wages, and the generation of over $7 billion in taxes. These are all American jobs, paid to American workers, and taxes paid to the American or subsidiary governments.

Mr. Chairman, some would say that 38 cents is not much; and that is really where we come to the nub of the matter. Is 38 cents a lot of money? I have got 38 cents in my pocket—actually, I have got 37 cents. But 38 cents, given the fact of the amount of fees, and the number of fees and assessments which we are already paying, is something to put into context.

We have, as the GAO study which I referred to in my written statement, we are paying currently over 55 fees and assessments to the Federal Government. I do want to make one clarification in that regard. There are about 42 fees that we are actually paying for maritime purposes to the Federal Government; and the balance of them are paid as a result of air transportation.

When you put it in that context, Mr. Chairman, it is how do we bring this matter to your attention? How do we grapple with the fact that we are heavily taxed, and pay heavy fees right now, in a large number of areas?

I think, to me, it was mindful somewhat of a trip to the dentist. I find the dentist, as a matter of principle, somewhat uncomfortable. I do not like to go there. I find it painful on occasion, and I find it a matter that I would like to ignore. However, I know that if I do not maintain certain dental health, I may be faced with certain extraction surgery; and that must be avoided at all costs.

So, it is in relation to the fees and of this proposal to what might also happen, that bothers us most particularly. We find that the 38 cents, in the proposal that has been made, is inappropriate to us.

However, we also find that we do not want to get involved in extractive surgery. We do not want to be faced with a situation where the cap may be lifted; where the fees may be targeted to our industry in a discriminatory manner. That would be a matter that is not just inappropriate. That would be a matter that would create real, substantive problems for us.

So, in conclusion, Mr. Chairman, we want to thank you for the opportunity to be here. We hope that some way can be found to ex-

clude us from the loop, because we are not in that loop. But we do encourage you, and want you to know that we have no problem with the underlying purpose of the legislation; it is the funding mechanism that creates a problem for us.

[The prepared statement of Mr. Estes follows:]

PREPARED STATEMENT OF JOHN T. ESTES

Thank you for inviting us to present our views on S. 1945 which we understand is based on the proposal of the Administration to enhance an American merchant fleet in order to increase the American presence in the transportation of cargo in international commerce as well as for American national security purposes. The International Council of Cruise Lines' (ICCL) members are engaged in the business of operating passenger cruise lines throughout the world and are not involved in the transportation of U.S. goods nor, of course, in national security matters of the United States. Our interests are more specifically defined as the maintenance of the free, unimpeded flow of passenger shipping on the open seas to and from the ports of all countries.

As an international industry we believe that domestic maritime policy decisions rest with the Government of the United States. We therefore generally do not take a position on such domestic matters unless they would affect safety or the environment. Nevertheless, the proposal would result in increasing the tax burden on our industry for the purpose of advancing solely American maritime and security interests. It is this increased tax burden and its effect on the currently positive contribution this industry now makes to the U.S. economy that we wish to address and not the underlying purpose of the legislation. Should the Committee determine that the policy objectives set forth in S. 1945 are indeed legitimate and worthwhile American goals, we believe that the international cruise line industry should not be singled out to serve as a tax base to fund those worthwhile domestic policy objectives.

ICCL is a non-profit association comprised of American- and foreign-owned companies engaged in the overnight passenger cruise line business and consists of foreign-flag passenger cruise vessels, all of which call either frequently and routinely or, for some only occasionally, at United States ports, as well as other ports throughout the world. As an international organization we are concerned with the legislative and regulatory policies not only in the United States, but worldwide. ICCL member ships cruise throughout the world and are substantial contributors to all of the economies with which they come in contact. ICCL represents about 90 percent of the worldwide, deep-sea, lower-berth, overnight, ocean4olng cruise capacity which consists of over 75,000 berths and more than 27 million cruise days on a full year basis. The ICCL position regarding domestic legislative proposals of the United States is rooted in three basic principles, namely:

(a) Domestic maritime policies of the United States and indeed of all nations should be designed to encourage freedom of the seas and not to restrict the free flow of international commerce into and out of their ports;

(b) Protectionist and unilateral action which has the affect of stifling competition by favoring domestic industries invariably results, for that country, including the United States, in higher consumer prices, operational inefficiencies, reduced service and possible retaliation from other nations; and

(c) The foreign-flag cruise industry has a $20 billion plus impact of wages and taxes on the United States economy with a growth estimate of 6.8 percent compounded annually which will in the years to come result in more U.S. jobs, more wages and more tax revenues.

We are proud of the contribution the modern day foreign-flag cruise ship industry is making to the United States economy and look forward to increasing that contribution in the future. We hope you share that pride and objective because this industry creates employment for hundreds of thousands of Americans—suppliers, travel agents, U.S. airline employees, and many others.

Price Waterhouse, in a recently completed major study, calculated that the cruise industry will add 134,712 full-time jobs to the U.S. economy by 1996, on top of the 450,166 U.S. jobs it already provides. Price Waterhouse confirmed that in 1992 our industry generated $14.5 billion in U.S. wages and $6.3 billion in domestic tax revenues. Price Waterhouse projects an additional $4.3 billion in wages and $1.9 billion in taxes by 1996, based on estimated capacity growth of 6.8 percent annually.

The cruise industry is a partner in America's economic growth and has been for more than two decades. Our expansion will help continue that growth with more jobs, more wages, and more tax revenues in the years to come. We want to work hand-in-hand with the Congress to assure that this economic impact continues to

benefit the U.S. A projected growth estimate of 6.8 percent compounded annually is conservative because it does not include the most recent expansion projects. From 1980 through 1991, the industry has grown 9.8 percent annually, and there is no reason to expect a slowdown, barring political or economic obstacles.

As noted above, this funding proposal is a subsidy for an unrelated maritime industry and in effect triples the existing tax to benefit programs developed for such unrelated industries. As a matter of principle we submit that this reliance on the unique source of tonnage tax funds creates a questionable and perhaps undesirable policy because the beneficiaries are in an entirely different market from those furnishing the funds. The cruise ship owners—many of them foreign—are being asked to have their passengers—many of them American—pay U.S. flag subsidies for the benefit of the totally unrelated cargo industry. It will create no economic benefit for the taxed owner and passenger, nor will it create any significant employment for Americans. It seems to ignore the fact that the international passenger shipping community in the United States employs thousands of shoreside employees including managers, architects, lawyers, suppliers, financiers and others.

Some would say $.38 per passenger is next to nothing and will not have such an impact. By itself, perhaps $.38 would not. Consider, however, the March 1993 Report of the General Accounting Office which sets out in detail the fifty-five federal assessments levied against foreign-flag vessels embarking passengers at U.S. ports. This does not include local and state assessments. A family of four is saddled four times with all these fees in paying for the family's passenger ship tickets. By many standards the average American cruise ship passenger is not a high-income wealthy individual. Over one third of these passengers have annual household incomes of less than $40,000 per year and nearly 75 percent of such passengers earn between $40,000 and $60,000. For the family of four the well-earned vacation is already squeezed into the family budget.

As noted at the outset, ICCL in no way contests development of a viable maritime industry in the United States. Such a goal should not be accomplished, however, by punishing the activities of an unrelated sector of the economy.

Some have urged that various aspects of the plight of the U.S. shipbuilding industry and its importance to the national interest be considered and then included as a beneficiary of the funds to be generated by the proposal. Although we share the view and applaud the objective of a viable, efficient and internationally competitive shipbuilding industry in the United States, we do not believe in general that it is appropriate or desirable for the cruise ship industry to be the taxing vehicle for this purpose. The question of international shipyard subsidies is a highly complicated issue involving the domestic policies of many countries. We are in no position to comment on those policies, but we do agree that this is a question most appropriately addressed in government to government negotiations such as those that are now ongoing.

We recognize that S. 1945 addresses significant domestic U.S. policy objectives. Nevertheless, we wish to stress that cruising on foreign-flag vessels who call at U.S. ports from time to time (some more frequently than others) is a totally different activity from the maritime transportation of cargo on ships flying a U.S. flag * * * or indeed from preserving a U.S. military sea-lift capacity. These are two different unrelated industries and objectives with different markets and priorities, neither of whom should be burdened with the cost of financing the operations of the other. Any impediment to the free flow of foreign commerce should be considered as a last resort.

CONCLUSION

Although we have no problem with the underlying objectives of S. 1945, we do urge careful study and evaluation of alternative revenue sources which are more directly related to such objectives. This industry contributes significantly to the United States economy primarily through the creation and maintenance of hundreds of thousands of American jobs and is poised to increase that contribution in the near future. We would urge that as a matter of domestic United States policy, priority be given to fostering the encouragement of that contribution and not limiting it through the enactment of increased taxes on cruise ship passengers.

Senator BREAUX. Thank you. Ms. Phelleps.

STATEMENT OF MOYA PHELLEPS, EXECUTIVE DIRECTOR, COAL EXPORTERS ASSOCIATION, AND VICE PRESIDENT-INTERNATIONAL TRADE, NATIONAL COAL ASSOCIATION

Ms. PHELLEPS. My name is Moya Phelleps. Thank you, Mr. Chairman. I am executive director of the Coal Exporters Association; vice president-international trade, for the National Coal Association.

I am here today, testifying on behalf of NCA; its affiliate, CEA; and the National Grain and Feed Association. We appreciate the opportunity to testify on S. 1945 and funding proposals for maritime reform.

NCA is an organization that represents coal producers and allied industries. Our members represent approximately 70 percent of the coal produced in the United States. CEA members are coal producers that export coal, as well as coal brokers. These companies represent approximately 80 percent of the coal that is exported from the United States.

The NGFA is the U.S.-based nonprofit trade association for the North American grain and feed industry. Its members consist of more than 1,100 grain, feed, and processing firms, comprising 5,000 facilities that store, handle, merchandise, mill, process, and export more than two-thirds of all U.S. grain and oilseeds utilized in domestic and export markets.

Its members also consist of 37 affiliated State, provincial, and regional grain and feed associations, whose members include more than 10,000 grain and feed companies in North America.

In 1993, the United States was the second largest coal exporter worldwide, exporting 74 million short tons of coal to more than 40 countries, including Canada. In 1993, our exports contributed more than $3.1 billion to the positive side of the U.S. trade balance. In 1992, coal was the largest commodity exported, in terms of tonnage; and the third largest, after wheat and corn, in terms of value.

More than 16,200 direct coal mining jobs, and an additional 130,000 jobs in U.S. companies, support the production and movement of coal to export. According to a Pennsylvania State University study commissioned by NCA, the direct economic impact is $21 billion annually, and $81 billion in total activity generated.

In fiscal year 1992, the United States exported $42.3 billion of agricultural products throughout the world; and the United States consistently ranks as the world's largest exporter of bulk commodities.

The U.S. coal, grain, and feed industries understand the importance of a U.S.-flag fleet, and the role it plays in our country's national security. Our opposition to S. 1945 centers upon the vehicle that has been chosen to pay for the Maritime Security Program: An increase in the vessel tonnage tax.

Overall, bulk carriers provided 46 percent of the vessel tonnage tax revenues in 1992. Coal, grain, minerals, wood, paper, iron and steel, and fertilizers contributed more than $43 billion to our trade balance. All of these exports will be significantly impacted by the increase in the tonnage tax.

What does this increase mean to both coal, grain, and feed exports? It means that the U.S. coal exporters, and in particular their

consumers, are being asked to pay for a U.S.-flag fleet that will not have any bulk carriers. And, if these vessels were permitted into the program, in all likelihood they would be too small and too expensive to be competitive in today's coal trade.

It means, in the case of coal, that this is an export tax; since most vessels arrive from foreign ports empty. It means that more than 88 percent of U.S. coal exports will face increased costs of between $0.14–$0.18 per ton. This is in addition to the already $0.09 per ton currently paid. Approximately 25 percent of our coal exports to Canada will face an increased cost of $0.07 per ton; and this is in addition to the current $0.05 that we pay.

As with coal, most grain vessels come in empty; and this means the vessel tonnage tax is an export tax. It means a typical grain vessel with a net registered tonnage of 45,000 tons, currently pays $12,150 for the vessel tonnage tax; this increase means that it would now pay $31,950 under the administration's proposal. This is a $19,800 increase.

It is rather ironic for an administration that has a well-stated policy of promoting exports, to tax exports in order to pay for a U.S.-flag fleet.

According to the Department of Commerce, the trade deficit in 1993 was $132.5 billion. This represents a 38-percent increase from the 1992 deficit of $96 billion.

Maritime commerce already bears a heavy burden of taxes on trade. The GAO issued a report in March 1993, which identified 12 Federal agencies levying a total of 117 different assessments, collecting $11.9 billion in fiscal year 1993. The General Fund of the U.S. Treasury receives 89 percent of the collections; and only 11 percent go to reimburse an agency providing a service, or to fund a port-related trust fund.

The U.S. coal, grain, and feed industries urge that alternative sources of funds be examined, other than taxing U.S. exports and, in particular, U.S. coal, grain, and feed exports.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Phelleps follows:]

PREPARED STATEMENT OF MOYA PHELLEPS

Mr. Chairman and members of the Subcommittee my name is Moya Phelleps, Executive Director of the Coal Exporters Association and vice President, International Trade for the National Coal Association.

I am here today testifying on behalf of the National Coal Association (NCA), its affiliate, the Coal Exporters Association (CEA) and the National Grain and Feed Association (NGFA). We appreciate the opportunity to testify today on 5.1945 and the funding proposals for maritime reform.

NCA is an organization that represents coal producers, coal exporters, equipment manufacturers, resource developers, coal-burning utilities and transporters of coal. NCA's producer members represent approximately 70 percent of the coal produced in all regions of the United States and NCA members serve all coal markets.

CEA members represent coal producers that export coal as well as coal brokers. These companies represent approximately 80 percent of the coal that is exported from the United States.

The National Grain and Feed Association (NGFA) is the U.S-based nonprofit trade association for the North American grain and feed industry. NGFA's membership consists of more than 1,100 grain, feed and processing firms comprising 5,000 facilities that store, handle, merchandise, mill, process, and export more than two-thirds of all U.S. grains and oilseeds utilized in domestic and export markets. NGFA5s members include country, terminal and export elevators; feed mills; cash grain and feed merchandisers; commodity futures brokers and commission mer-

chants; processors; millers and allied industries. The NGFA also consists of 37 affiliated state, provincial and regional grain and feed associations whose members include more than 10,000 grain and feed companies in North America.

In 1993, the United States was the second largest coal exporter worldwide, exporting 74 million short tons of coal to more than 40 countries including Canada. In 1993, U.S. coal exports contributed more than $3.1 billion to the positive side of the U.S. trade balance. In 1992, U.S. coal exports were 102 million short tons valued at $4.2 billion. Coal was the largest commodity exported in terms of tonnage and the third largest, after wheat and corn, in terms of value.

While coal is not exported from all coal producing states, its economic impact is felt nation-wide. More than 16,200 direct coal mining jobs and an additional 130,000 lobs in U.S. companies support the production and movement of coal to export. Coal exports are critical to the economies of the states of West Virginia, Virginia, Kentucky, Pennsylvania, Alabama, Utah, Alaska, Louisiana, Maryland, and Ohio. Coal exports move through the ports of Hampton Roads, Baltimore, Los Angeles, the Great Lakes, Mobile and New Orleans. Our competitors are Australia, South Africa, Columbia, Venezuela, and Indonesia.

According to a Pennsylvania State University study, commissioned by the National Coal Association, the direct economic impact is $21 billion annually and $81 billion in total activity generated annually in the U.S.

IMPACT ON COAL, GRAIN AND FEED EXPORTS

The U.S. coal, grain and feed industries understand the importance of a U.S. flag fleet and its role in our country's national security. Our opposition to S. 1945 centers upon the vehicle that has been chosen to pay for the Maritime Security Program—an increase in the vessel tonnage tax.

We are all aware of the history of this tax but, suffice it to say, this tax was increased 450 percent in 1990 as part of the Omnibus Budget Reconciliation Act (OBRA). It was due to revert back to its original rate in 1995 but the higher rate was made permanent in 1993.

Three years after the tax was raised 450 percent, the Administration proposes to increase It another 150 percent. After reviewing the information provided by the Maritime Administration (MARAD), the $0.24 and $0.71 rates represent a 167 percent and 163 percent increase respectively. The 150 percent increase should be $0.225 and $0.675 respectively.

Overall, bulk carriers provided 46 percent of the vessel tonnage tax revenues in 1992. Coal, grain, minerals, wood, paper, iron and steel, and fertilizers contributed more than $43 billion to the positive side of our trade balance. All of these exports will be significantly impacted by the increase in tonnage tax.

Opposition to the vessel tonnage tax, as a funding mechanism, is not limited to bulk exporters. The National Manufacturers Association (NAM) position is, and quote, "The NAM supports a maritime revitalization program designed to maintain a modern American merchant fleet, ensure continuing American presence in the transportation of our vast international commerce in a competitive environment, and provide adequate sealift for national emergencies. Funds necessary to pay for this program should be allocated from the Department of Defense or other general revenues and not from a vessel tonnage fee."

What does an increase in the vessel tonnage tax mean for U.S. coal exports?

- It means that U.S. coal exporters and their customers are being asked to pay for a U.S. flag fleet that will not have any bulk carriers. And if these vessels were permitted into the program, in all likelihood, they would be too small and too expensive to be competitive in the coal trade.
- It means, in the case of coal, that this is an export tax since vessels arrive from foreign ports empty.
- It means that more than 88 percent of U.S. coal exports will face increased costs of between $0.14-$0.18 per ton. This is in addition to the $0.09 per ton currently paid.
- It means 25 percent of our coal exports to Canada will face an increased cost of $0.07 per ton. This is in addition to the $0.05 per ton currently paid.

Attached to our statement is a table that indicates several recent movements of U.S. coal exports and the additional vessel tonnage costs associated with the movements.

What does it mean to grain and feed exports?

- As with coal, most grain vessels come in empty, and this means the vessel tonnage tax is an export tax.

• It means a typical grain vessel with a net registered tonnage of 45,000 tons which currently pays $12,150 for the vessel tonnage tax, would pay $31,950 in taxes under the Administration's proposal. This is a $19,800 increase.

• Agricultural exports are extremely important to this nation's economy.[1] In fiscal year 1992, the United States exported $42.3 billion of agricultural products throughout the world and the U.S. consistently ranks as the world's largest exporter of bulk commodities. See generally, U.S. General Accounting Office, AGRICULTURAL TRADE. Significance of High-Value Products as Agricultural Exports (August 1993; GAO/GGD93-120).

• The disproportionate impact on bulk commodities of a large increase in the vessel tonnage tax will erode the competitiveness of U.S. grain and oilseeds in world markets. For example, data from a Purdue University study indicates the U.S. has four major competitors in corn production whose average cost of production is $3 per ton less that the United States.[2] It is only the high level of efficiency in the U.S. marketing and transportation systems which give the U.S. farmer an advantage in delivering corn to world customers. Most agricultural experts agree that the U.S. has its greatest comparative advantage in the production and marketing of corn, with even stiffer world competition in the production and delivery of soybeans and other grains.

The international coal, grain and feed markets are extremely competitive and contracts can be won or lost by small fractions of a dollar. In the case of coal, this year's business for Europe and South America has yet to be completed and from all reports it is very possible that contracts may be won or lost by very small amounts. Considering this competitive environment, an additional cost for U.S. coal, or the potential, provides reasons for customers of U.S. coal to look elsewhere for coal supplies.

Since 1991, when the first increase in the tax took effect, U.S. coal exports have declined by 46 percent. While the vessel tonnage tax cannot be pinpointed as the reason for this decline, it certainly makes it more difficult for U.S. coal exporters to compete in the international coal market where other countries subsidize their coal industries and actively promote exports.

The Energy Information Administration in its Annual Energy Outlook 1994 shows coal exports increasing to 133 million short tons in the year 2000 and 152 million short tons in 2010. Actions such as a 163 percent increase in the vessel tonnage tax will clearly disadvantage U.S. coal exporters.

It is rather ironic for an Administration that has a well-stated policy of promoting exports to tax exports in order to pay for a U.S. flag fleet. According to the Department of Commerce, the trade deficit in 1993 was $132.5 billion. This represents a 38 percent increase from the 1992 deficit of $96 billion.

Maritime commerce already bears a heavy burden of taxes on trade. The General Accounting Office (GAO) issued a report in March 1993, which identified 12 federal agencies levying a total of 117 different assessments, collecting $11.9 billion in fiscal year 1991. The General Fund of the U.S. Treasury receives 89 percent of the collections and only 11 percent go to reimburse an agency providing a service or to fund a port-related trust fund.

The U.S. coal, grain and feed industries urge that alternative sources of funds be examined other than taxing U.S. exports and in particular U.S. coal, grain and feed.

Impact of the Proposed Vessel Tonnage Tax Increase on U.S. Coal Exports

Vessel	Current tax (ton of coal)	Proposed tax (ton of coal)	Increase (ton of coal)
Vessels arriving from W. Hemisphere (current tax $0.09 and proposed tax $0.24):			
Canada: 16,398 NRT/32,119 DWT	$0.05	$0.12	$0.07
Vessels arriving from other ports (current tax $0.27 and proposed tax $0.71):			
Brazil:			
22,277 NRT/74,238 DWT	$0.08	$0.21	$0.13
24,735 NRT/75,000 DWT	0.09	$0.23	$0.14

[1] The top ten agricultural producing and exporting states are: California, Iowa, Illinois, Nebraska, Texas, Kansas, Minnesota, Indiana, Missouri and Ohio. With the exception of California, the top 3 agricultural exports are bulk commodities such as wheat, soybeans, and feed grains.

[2] Indiana Agriculture 2000: A Strategic Perspective, Purdue University (June 1992)).

Impact of the Proposed Vessel Tonnage Tax Increase on U.S. Coal Exports—Continued

Vessel	Current tax (ton of coal)	Proposed tax (ton of coal)	Increase (ton of coal)
Europe:			
43,071 NRT/104,000 DWT	$0.11	$0.29	$0.18
31,269 NRT/92,499 DWT	0.09	$0.24	$0.15
Japan-Korea: 49,759 NRT/152,000 DWT	$0.09	$0.23	$0.14

Computation: Net Registered Tonnage (NRT) X Tax divided by Deadweight Tons (DWT).

Foreign Distribution of U.S. Coal by Origin State, January–December 1992

[Thousand short tons]

Coal-producing region and state	Canada	Overseas[1]	Total
Alabama		5,931	5,931
Alaska		734	734
Arkansas		3	3
Colorado		669	669
Illinois		1,242	1,242
Indiana		177	177
Kentucky:			
Eastern	2,078	11,737	13,815
Western		221	221
Maryland		234	234
Montana		62	62
New Mexico		5	5
Ohio	(2)	1	2
Oklahoma		14	14
Pennsylvania:			
Anthracite	235	89	324
Bituminous	1,364	4,752	6,116
Tennessee		2	2
Utah		2,260	2,260
Virginia	1,331	15,893	17,224
West Virginia:			
Northern	2,012	4,541	6,553
Southern	6,899	37,355	44,254
Wyoming		1,277	1,277
U.S. Total	13,919	87,461	101,380

[1] Also includes Mexico.
[2] Quantity is less than 500 short tons.
Source: Energy Information Administration Form EIA-6, "Coal Distribution Report."

Senator BREAUX. Thank you, Ms. Phelleps. Mr. Stocker.

STATEMENT OF JOHN J. STOCKER, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. STOCKER. Good afternoon, Mr. Chairman. Thank you for the opportunity to appear here this afternoon; and, as you have noted, my name is John Stocker, and I am president of the Shipbuilders Council of America.

Senator, I want to first express my personal thanks to you, to Senator Lott, to members of the subcommittee, for the strong support you have given to maritime reform effort.

And in particular, I want to thank you for the personal support you have given us in our continuing, ongoing negotiations with the OECD; and the close interest you have paid to the process of attempting to achieve disciplines in the shipbuilding subsidy arena. Of course, as you also note, the administration has strongly supported us in these negotiating efforts; and the President's plan that was announced last fall was certainly an important first step.

And clearly, we have much to be grateful for in terms of the support of the administration, including not just the President, but also Secretary Peña and Maritime Administrator Al Herberger: Who, frankly, Mr. Chairman, as you correctly noted to me privately a couple of years ago, would be a breath of fresh air in the Maritime Administration; and we would concur with that.

Mr. Chairman, I will not take you through, blow by blow, the statement that I filed for the record. I would like to note, however, that we recognize that the need is now for maritime reform. We are prepared to support it.

We are prepared to work with you, the ship operating community, and maritime labor, to put a package together that makes sense; to improve the competitive position of U.S.-flag operators in the international market. And in this regard, I want to thank Mike Sacco and his colleagues in the maritime labor community, for their expression of support for their brothers and sisters in American shipyards, and the problems they face.

As you know, Mr. Chairman, since you have been so closely following the issue, we have been for nearly 5 years involved in very long and tedious negotiations, to try to end foreign shipbuilding subsidy practices; practices which have heavily damaged our industry.

And you also know that we have faced roadblock after roadblock, in attempting to achieve a settlement of some of the outstanding issues. You might not know that we have lost 15 percent of our employment base during the 5 years that these negotiations have been ongoing.

Frankly, I am now beginning to believe, in a rather cynical way, that this is a deliberate strategy on the part of our trading partners, to keep us out of the market. And if they wait long enough, this industry will disappear, before they have to contend with us as a competitive voice in the marketplace.

Having said that, one thing we recognize is that U.S.-flag operators will have to have the right to be able to purchase ships where they can, since they are in the business of being consumers of ships. However, we are somewhat concerned that the bill provisions that are currently included in the administration's proposal would appear to give too ready access to the U.S. market, before we have concluded disciplines in the subsidy negotiations or we pass your legislation to retaliate against those who have failed to negotiate with us in good faith.

In fact, Mr. Chairman, I would go so far as to say that we would prefer to see the approach undertaken on build foreign, in regard to the provisions that were passed last year in the House, in H.R. 2151, a bill that is now over in this body.

Let me mention a second item that is critically important to us, that was also included in H.R. 2151. Largely as a result of the fact that it has been so long that we have waited for these negotiations to achieve results, we are now facing the prospect of this industry running out of work before we can begin market access operations.

Therefore, a new idea has emerged, known as the Series Transition Payment Program, that would be used by American shipyards as they convert from building military ships to commercial ships. And the notion here is to develop a program that would help U.S.

shipyards to compete, in that portion of the market where our strongest competitors currently exist, in the series production of standard vessels like product tankers, for example.

As you know, since 1981, when U.S. shipyards were effectively closed out of the market by the decision to terminate our CES program, we have had to focus on naval construction. But during that same time period, our competitors overseas, through the government aid that they have received, were able to establish standardized production of vessels in series.

What we would like to do is to initiate an STP program that would give us the basis for catching up to this advantage that foreign yards have had. And that is where we believe STP offers us, in the short term—and let me underline, in the short term—a basis for moving into the marketplace.

We were disappointed that the administration did not see itself to fund this effort. We have had discussions with members on both sides on this subject, and we believe it is possible to fund STP within the constraints identified under the tonnage fee, and to put a program together that would very clearly assist U.S. shipyards in assessing the marketplace.

Let me just give you an idea of the numbers I am talking about, Mr. Chairman. In the next 5 years, if we were able to receive $423 million of support, we could sign contracts for 55 ships. And at the end of that time period, if we do have a trade agreement of course, the STP program would be brought into compliance with that trade agreement. So, the notion here is that STP would serve as a window, and a transition window, that would allow us to penetrate the market.

Let me reassure you that we continue to support the idea that a trade agreement, and/or your legislative vehicle to retaliate, remains the best hope for this industry in the long term. This STP notion is nothing more than a short-term fix, to get us through the next couple of years, while we face this very severe downturn in defense spending that will end up affecting over 180,000 shipyard and shipyard-supplier jobs.

And we would be pleased to work with you, Senator Lott, and the members of this subcommittee and the staff, in trying to develop a program that meets the dual needs of U.S.-flag operators and U.S. shipyards.

[The prepared statement of Mr. Stocker follows:]

PREPARED STATEMENT OF JOHN J. STOCKER

Mr. Chairman, Members of the Subcommittee, my name is John J. Stocker. I am President of the Shipbuilders Council of America, the national trade association representing American shipyards, marine equipment suppliers, and naval architects.

Background. I appreciate the opportunity to comment on the fiscal year 1995 Maritime Administration Authorization Act. I would like to begin by summarizing what has happened to our industry over the past 13 years. In 1981, the U.S. Government unilaterally terminated the commercial ship construction-differential subsidy (CDS) in the United States, and then implemented special legislation—the so-called "temporary" Section 615 exemptions—to encourage U.S. shipowners to bypass American shipyards and take advantage of rapidly escalating foreign shipbuilding subsidies and ship dumping practices.

The combined impact of the unilateral termination of the CDS program, the Section 615 waivers, international ship dumping practices, and massive foreign shipbuilding subsidies devastated commercial shipbuilding in the United States, forcing

the closures of private sector shipyards across the country and the loss by 1990 of over 80,000 shipyard jobs.

American shipyards that managed to survive the 1980s turned to the U.S. Government as their sole source of business. But now that business base is also threatened. The downsizing of the U.S. Navy means that not enough new ships will be ordered to support the U.S. shipbuilding base through the remainder of this decade. Our yards cannot stay open without sufficient workload. If they are forced to close, the reverberations will be felt throughout our country's economy, as another 180,000 Americans in shipyard and shipyard supplier jobs across the country will be out of work by the end of the 1990s. Coupled with the job losses sustained in the 1980s, this will mean that more than 300,000 Americans employed in shipbuilding-related work will have lost their jobs. In addition, shipyard closures over the next ten years will place the Navy at risk, due to insufficient production facilities to meet future Navy construction and repair demands in the years beyond 2005.

Foreign Subsidies and the OECD Talks. The only answer is for our yards to build commercial ships again. But we face tremendous impediments. The foreign subsidies and ship dumping practices that drove our yards out of the commercial market over a decade ago are continuing to keep us out. Since 1988, the average aggregate shipbuilding aid budget in just six of the world's top shipbuilding nations has been $9 billion a year. How can our industry compete against subsidy levels like that?

Keep in mind that the OECD's top commercial shipbuilding nations have maintained these subsidy levels despite the negotiations within the OECD [Organization for Economic Cooperation and Development]. Begun in the summer of 1989 in response to a section 301 petition filed by the Shipbuilders Council of America, these negotiations have been unsuccessful. During the nearly five years of trade talks, certain types of foreign shipbuilding aid programs have escalated; even massive new programs have been initiated and grandfathered into the draft agreement.

Because the United States has no bargaining chips, it also has had no leverage in the OECD talks. Our OECD trading partners, on the other hand, were successful in exempting some of their programs from an agreement. Their success has led to their current attempts to remove other significant shipyard aid programs from the agreement as well—for example, the extensive export ship financing programs that benefit the shipyards in the European Union, and the favorable financing programs for ocean-going ships built in Japan for domestic owners.

Recently, it was disclosed to us that even if an international agreement to limit shipbuilding subsidies were to be reached in the near future, the agreement would not actually go into effect—and the subsidies would not stop—until all of the countries represented at the bargaining table through a ratification process in their own legislatures.

How long would ratification take in—for example—Germany, France, Italy, and Spain, where there are powerful shipbuilding lobbies poised to protest the termination of their subsidies? Nobody knows. Moreover, nobody knows exactly what policies and practices would have get legislative approval during the ratification process in any country except the United States. This is because only the United States has revealed its specific shipbuilding and repair-related regulations.

Thus, our industry could face the anomaly of having achieved a trade agreement on shipbuilding subsidies while our trading partners delay implementation of the agreement in order to hang on to their subsidies for as long as possible and keep our shipyards out of the commercial market.

Build-Foreign Provisions of the Administration's MSF. The current Administration is well aware of the many difficulties associated with the intransigence of the governments represented in the OECD talks. Consequently, we were shocked when the Administration's Maritime Security Program (MSP) contained immediate, unlimited build-foreign provisions. The Administration's plan would give U.S. flag ships authority to get operating aid and cargo preference privileges for ships built in subsidized foreign yards promptly upon passage of the legislation. In essence, U.S. flag ship operators would be rewarded for ordering from the same foreign yards that receive the subsidies which drove U.S. yards out of the commercial market in the first place, and which are continuing to keep them out.

To our industry, this is like a replay of 1981, only this time, we have no naval shipbuilding base to fall back on. We do not think it is unreasonable to expect the remaining 120,000 Americans employed in our shipyards to strenuously object to a policy from their own government that will destroy their jobs.

H.R. 2151. Since 1989, the Shipbuilders Council has gone on record on several occasions to support operating differential subsidy (ODS) and build-foreign authority for U.S.-documented vessels receiving ODS as long as our shipyards are not hung out to dry again. Last year, our industry supported H.R. 2151, the Maritime Secu-

rity and Competitiveness Act, because it had been carefully crafted to address the needs of both U.S. shipyards and the U.S. flag operating community. This bill passed the House on a vote of 347 to 65 on November 8, 1993.

Because of the impact of foreign shipbuilding subsidies on our industry's ability to compete, H.R. 2151 incorporated provisions to deny operating subsidy eligibility for those vessels contracted for in subsidized foreign yards before May 19, 1993, and to require a shipowner who wishes to receive operating subsidy on a vessel contracted for in a subsidized foreign yard after May 19, 1993, to give U.S. yards a chance to bid on the vessel first.

Series Transition Payments (STP). H.R. 2151 also provided for a short-term Series Transition Payment program for U.S. yards as they convert from building military ships to building commercial ships. Before 1981, U.S. yards were dedicated to meeting the specifications of the U.S. Navy and of U.S. flag customers who required small runs of unique ships. After 1981, when Americans were shut out of the commercial market, they turned almost exclusively to building naval ships. On the other hand, foreign shipyards during that period took advantage of government aid to establish standardized production of vessels in series. Their initial start-up design and engineering costs have been amortized over a number of ships, and they are now in the position of selling vessels that are far down the production curve. Consequently, U.S. yards need a "catch-up" period.

This is where STP comes in. STP would provide short-term aid to U.S. shipyards as they restructure their operations to convert from building military vessels to building commercial vessels. In essence, STP would apply to Department of Transportation (DOT)-approved series construction projects at U.S. yards transitioning into the commercial market. Payments for a specific project would decrease over time; that is, each payment would decrease with every follow-on ship as production is standardized and run more efficiently.

We were disappointed that Department of Transportation (DOT) Secretary Peña, when he testified before the full Senate Commerce, Science, and Transportation Committee last month, stated several times that U.S. shipyards had been taken care of last year in the President's National Shipbuilding Initiative, even though that initiative did not provide for a Series Transition Program. When pressed, however, Mr. Peña appeared to leave the door open for Administration support for STP, depending on the funding mechanism.

We stand ready to support the Administration's program to preserve a U.S. flag fleet and some 3,000 to 4,000 American seagoing jobs, with the stipulation that the measure also include STP to help preserve 180,000 U.S. shipyard and shipyard supplier jobs, and the build-foreign provision be revamped along the lines of H.R. 2151. We are presently working on an analysis of the Administration's funding proposal to ensure that an equitable funding mechanism for both operating subsidies and STP can be developed.

Senator BREAUX. Thank you, Mr. Stocker, and I thank all of the members of this panel for their testimony.

Mr. Stocker, let us start with you. We have been working on this situation for a long period of time, and I am still dedicated to helping the yards. But the Shipbuilders Association and all the members have been working with me, and I know some of the other Members of Congress now, aggressively at the OECD talks to end the offensive practice of other countries subsidizing their shipyards. We have all united under that proposition. But it seems that what you are recommending here today is the implementation of a subsidy like we are trying to get other countries to do away with, which I find to be inconsistent.

Mr. STOCKER. Mr. Chairman, we continue to support, as I said in my summary of my remarks, the long-term goal of a trade agreement, of achieving a trade agreement. The passage of your legislation is a mechanism to get foreign governments to terminate their subsidy practices. What we did not know until very recently, however, is that the trade agreement, if it were adopted, would not enter into force until all the member countries of the OECD ratify that document.

In the case of the United States alone, that would require the U.S. Congress to pass implementing legislation to repeal a number of provisions that we currently have in the statute books. And our estimate, even at a best guess, is it would probably take at least a year and a half, 2 years, before the repeal of U.S. law could, in fact, be undertaken, and the U.S. Government could deposit a ratification instrument at the OECD.

Given the fact that our trading partners are not likely to move as rapidly as we will, not only because of the fact that we do not know what laws they are prepared to repeal and because of the very strong and powerful shipbuilding lobbies that exist in a number of countries, for example Italy and France and others, it could be some time before this agreement would enter into force and preclude subsidy practices from being undertaken.

While we are prepared to support the notion of an agreement, Mr. Chairman, I do not think we can leave ourselves defenseless when over the course of the next 2 or 3 years we are going to see a 67-percent drop in the backlog of U.S. naval vessels and we will be laying people off faster than countries will move to ratify the trade agreement.

Senator BREAUX. But you are putting us in a very uneasy position. I mean, I have got legislation saying that if you do not end the subsidies in the other country we are going to take action against you, and now you are asking me to introduce legislation that puts into effect the same type of subsidies that my other bill says should be done away with. I mean, the concern I have is that what you are advocating in this bill, if we adopt it it would be clearly illegal under what you are advocating the OECD should do. I mean is that not a fact?

Mr. STOCKER. This program, in fact if the trade agreement were to emerge in the form that it currently exists in——

Senator BREAUX. No, in the form that you are advocating it in.

Mr. STOCKER. This program would, in fact, have to be terminated. There is no doubt about it.

Senator BREAUX. Is that not inconsistent? I mean, what you are talking about may not happen as quickly over there, and that is a problem. But, I mean, I think people would laugh at me from a standpoint of being a little bit inconsistent.

Mr. STOCKER. Mr. Chairman, the problem, of course, is that we have a short-term market access problem the way the agreement is currently configured. And that—of course, you have to recognize your legislation, as well as the bill in the House, does nothing more than encourage people to go back to the table and sign a trade agreement; otherwise they face the retaliation of the U.S. Government in denying port access, for example, to their vessels.

So, if the overall goal of your legislation is, in fact, to force people back to sign this trade agreement, this trade agreement codifies the existing players in the market, and that is fine as long as we are a player. And the problem we have is that it has taken so long for us to get to this stage that we are fearful that our efforts to gain access are going to be denied procedurally, in other words, because of the amount of time that it will take for ratification to be undertaken and adopted.

We are only stating that STP, by definition, would be sunsetted, in just as the title XI changes that were made by the Congress last year would be sunsetted. The law clearly states from last year, when the title XI changes were incorporated, that that program is required to be brought into compliance with a trade agreement once one is achieved.

So, I would agree with you. This, in fact, would appear to be, on the surface, inconsistent. The problem we have is a problem of timing. Do we wait until the ratification process is completed and then try to gain market access, or do we, in the short term, take some steps to ensure that there is a penalty that is imposed on the other side for their failure to negotiate this issue quickly?

Remember, the original promise made to us by USTR back in 1989 was that this deal could be done in 9 months. We have had six failed deadlines since then, and in that timeframe, Mr. Chairman, we have lost 15 percent of our workforce.

Senator BREAUX. Well, I asked the administration what they thought about it. I mean, they point out that they have fought for and got appropriations for the Title XI Ship Vessel Construction Program, $144 million in appropriations, and authorized money for shipyard modernization and the MARITECH program which is a shipyard technology development program, and are initiating and expanding activities to assist shipyards in marketing efforts internationally and trying to review and revise and eliminate unnecessary Government regulations.

They say that they are working on trying to be of help, but that they cannot support legislation which at the same time they are arguing is illegal for other countries to do.

Mr. STOCKER. We talked to the administration about our proposal, Mr. Chairman, at the highest levels, and they recognize that one of the things that this program is seeking to do, of course, is help this industry transition from its military workload to a commercial workload. And so, in that context, it has a flavor of defense conversion about it. There is no doubt that they recognize that we have been "harmed"—let me underline that word—harmed by the length of time in which our Government, through no fault of its own, has been attempting to achieve an agreement with our trading partners.

My question to you, Mr. Chairman, is how much longer do we have to wait, how many more people do we have to lay off, how many more shipyards do we have to close before people will get the idea that something is going on out there where foreign governments are seeking to keep us out of the marketplace. And I would absolutely agree with you, this is an inconsistent approach, but it is by definition short term, it will be brought into compliance with the trade agreement, and it is only being done because we have a serious emergency on our hands.

Why is it OK for Germany to institute a $4 billion program for their shipyards? Why is it OK for the Koreans to put into place a bailout program for their shipyards? These have all been programs that have been started since the negotiations were kicked off in the fall of 1989. The only one that would prefer to live to a higher standard is the United States.

Senator BREAUX. Do all of your members agree with the subsidy proposal?

Mr. STOCKER. Membership supports STP. Some members believe that they do not need it, that what they need is a trade agreement, that what they need is a discipline in the marketplace. I agree with them. But they also recognize that their colleagues—the other colleagues in the industry probably need some assistance in making the transition and the huge cultural change that will be required for going from Navy to commercial work.

Senator BREAUX. Senator Lott.

Senator LOTT. Thank you, Mr. Chairman, and thanks to the panel. I am sorry I did not get to hear all of your statements, but I have looked over them and I do have a few questions.

First of all, I would like to begin by saying that, in my opinion—and this comes as no surprise to any of you, I am sure—any maritime reform package that does not deal with the problems of the shipbuilding industry in America is a totally inadequate reform package, because you are not dealing with one of the most important components of the whole area. Having said that, do you feel like the shipbuilding industry has been given sufficient consideration in the package that we do have before us?

Mr. STOCKER. Senator Lott, we have pretty mixed views about it. As I noted during your absence, we certainly are appreciative of the fact that the administration began moving forward in the fall of last year. And as you know as well as I do, that this is a very complex set of issues. Any time you begin talking about industrial subsidy disciplines, any time you talk about moving a manufacturing sector into the export market, it is not an easy undertaking and it is fraught with substantial difficulties.

In saying that, we believe the administration, under the pressure of budgetary concerns, did not elect, in the proposal they made to you, to include funding for this program. We think that was a mistake. We recognize the philosophical and political difficulties with them undertaking such funding, and we believe that they have erred on the side of opening access to the U.S. market too quickly, in advance of having some sort of an agreement with our trading partners, and one that is capable of being viewed as a fully ratified document. So, yes, I would agree with your point of view that shipbuilding should have been considered as a part of this package.

Senator LOTT. Well, I think the record is clear. We have all said thank you very much, administration, for trying to deal with this problem. I am long since trying to worry about who is going to get credit for doing what needs to be done to have a maritime industry in our country and our own American merchant fleet. So, I mean, I am willing to give credit to the Clinton administration or anybody that will deal with this problem, and I think they deserve a certain amount of credit for tackling the problem and I think Secretary Peña has carried forward, as he committed to, to try to find some solutions.

But having said that, I do feel like the shipyard component is inadequate at this point. Now, I understand the budgetary concerns. So, what we need, then, is can we find some places where we can get some more money. I know Chairman Hollings is looking for that, I know Subcommittee Chairman Breaux is looking for that,

but I wondered, do you have any ideas, do you want to throw any ideas out here of where we might find some additional money? I hear tell you might have some ideas; are you ready to reveal them?

Mr. STOCKER. Senator Lott, let me just give you a brief outline of our ideas, and then we would be glad to communicate to the chairman and to the members of the subcommittee in greater detail. First of all, Senator Breaux, one of the things we do agree with you on is that the status of the Ready Reserve Force needs to be looked at. And as Administrator Herberger noted in his testimony earlier, the Defense Department is redoing the mobility requirement study and there will be a fresh analysis on the RRF.

Let me suggest to you that—and the Maritime Administration currently has some prior year unobligated appropriations, $118 million in funding for the acquisition of additional vessels for the Ready Reserve Fleet. We would ask the subcommittee to take that under serious consideration, perhaps rescind it and reappropriate it for the STP program.

One of the reasons we would ask you to do that is we are not quite sure that the U.S. Government itself is being consistent when on the one hand it is arguing for ending foreign subsidies and on the other hand taking advantage of those subsidies by buying ships off the open market that were built in subsidized foreign shipyards.

In making that appropriation available, we would also argue that in looking at the tonnage fee, there probably needs to be a realignment of where the fees are going. For example, 46 percent of the tonnage fee right now is on the back of the bulk community. We think that has to be looked at and readjusted. That is clearly too much burden for the bulk community.

There should be a lifting of the cap on the port visits. In other words, do not limit it to five calls. Change the hemispheric differential so that you standardize it and not give an advantage to those voyages that originate in the Western Hemisphere. We agree with Mr. Shapiro that is nonsensical to have a tonnage fee charged on preference cargoes, and we would support the elimination of that. And Mr. Estes will not be happy to hear this, but we do think the cruise industry needs to bear a greater burden in terms of these fees.

Restructuring the fees in this format would, in fact, yield about $400 million over a 10-year period, that is greater than what the administration has proposed. Coupled with the reappropriation that I earlier described, along with that $400 million, would generate sufficient funds to, in the first 5 years of the program, lead to the signing of contracts for 55 new vessels, which is 55 more than we have now.

Senator LOTT. Well, I have got some other questions I would like to ask you, but since Mr. Estes' name was invoked, maybe we should give him a chance to respond to some of these questions too, or some of the things you said.

Mr. Estes, critics claim that the foreign-flag cruise ship industry pays no direct taxes and does not operate with the same burdens or restrictions as the U.S.-flag industry. Why should foreign-flag cruise ships then not pay these taxes, if they operate primarily out of U.S. ports with U.S. customers?

Mr. ESTES. Senator, we do pay, on assessments and fees, well over 45 of them, which I alluded to earlier, and that is documented in a GAO study which I referred to in our written statement. So, that from the standpoint of operating assessments, operating fees, the utilization of facilities, the utilization of services that the ships have when they come into U.S. ports, those are paid by us and there is no exemption or no exception for that. And it is pretty heavy; there is an awful lot of them.

With respect to income taxes, the 1984 shipping act, as you know, has set up bilateral treaties between various countries and we are operating under that. Just as U.S. companies receive certain reciprocal treatment in other countries, foreign countries receive that reciprocal treatment here in the event that they meet the qualifications of the act. So, the answer is that we are paying, and we are paying heavily.

And the other thing, I think, is that we are generating in the United States—in 1992 we generated well over $8 billion in tax revenues. Now, that is the total industry, that is not the operators, but that is what we bring to the table as a result of this industry being here. So, there is a mix of answers there but, in short, we are a contributor, we are paying our way, and we are operating under the law.

Senator LOTT. Do you want to respond to any of the other comments that were made by Mr. Stocker?

Mr. ESTES. Yes, Mr. Stocker was right, we certainly do not agree that we ought to take on a greater burden with respect to funding the underlying programs. When you were not here I did indicate that we have no problem with these programs. We are not taking a position on the programs as such. They, in our judgment, are matters for the wisdom of this committee and for the wisdom of the Senate.

What we are talking about is the funding of them. And we are involved in the passenger trade business, we are not involved in the cargo business, and when you mix those two things up you are mixing up markets, you are mixing up the economy. They are two things that are totally different. So, we do not feel that it is appropriate for this industry to be funding, as beneficial as they may be, programs that are essential for the cargo industry or, indeed, for the shipbuilding industry. These are problems that the Congress should address, and we agree with that, but funding from a passenger just seems to us to be totally inappropriate.

Senator LOTT. Would you be lenient with me a minute more, Mr. Chairman? I want to go back and talk just a little bit more about the shipbuilding industry.

There has been talk about conversion, defense conversion. The fact of the matter is—is anything happening in that area?

Mr. STOCKER. I would have to say, Senator, that the most significant area where we are seeing some movement now is in these current contracts or contracts that are about to be awarded by the Advanced Research Project Agency under the Maritime Technology Program, about a $30 million program.

Senator LOTT. A $30 million program, and being from a town where we build ships, $30 million falls off the end of destroyers.

Mr. STOCKER. I would have to say that most of the members of the Shipbuilders Council believe that defense conversion is really going to be something they are going to have to undertake in each of their individual companies. And for a conversion program along the lines that is described under the MARITECH Program, while it is important, it certainly is not going to solve all of their problems as they make the fundamental readjustment that they have to make from military production to commercial production.

Senator LOTT. I have had regular contact with you, but let us just talk a little bit in terms of jobs. Over the next 5 years, up to 1999, based on the projected defense ship contract work that is pending out there and all the domestic nondefense work that might be available, what is going to happen with the employment numbers and the shipbuilding industry of America?

Mr. STOCKER. The industry is going to lose well over 70 percent of its current employment base, which will drop from roughly about 100,000 people today to 26,000.

Senator LOTT. All right, and what about the subtier?

Mr. STOCKER. Subtier will lose another 108,000 jobs, out of about 150,000. So, we are talking about the devastation of an industry that will remove the United States forever as an effective force in the manufacture of ships.

Senator LOTT. Defense or merchant.

Mr. STOCKER. And in fact, Senator, I am glad you said that because a recent Navy war game conducted at the War College in Newport, RI, last January found that in the year 2010 the Navy Department had no place to build the replacement vessels for the ships that are currently operating because there were insufficient production facilities left.

Senator LOTT. Well, I do not want to turn this into the Defense Subcommittee hearing, but we just had a hearing on this one issue yesterday and I would just like to ask you one other question in that area, since I have you here and I did not have you yesterday, I had the Secretary of the Navy.

What do you think of this idea of going to outlay based, or if you would, incremental funding of defense ships, contracts?

Mr. STOCKER. Senator, as you know, we have taken a preliminary look at that issue and are in the process of analyzing it even further. I happen to believe that that is an area that will allow us to increase the workload for U.S. shipyards and keep the outlays at levels in the future that are below where we are today, and in fact could potentially spinoff a portion of those dollars to help fund the STP program, at least in the first year or two.

Senator LOTT. Do you have any hopes of positive results in the next OECD meeting?

Mr. STOCKER. Senator, I do not believe so, partly because I do not believe the Europeans are serious about achieving a settlement with us on these issues.

Senator LOTT. But if they thought we were serious about doing something really tough in the Congress, that might have an impact on it, right?

Mr. STOCKER. I think that is the case, yes.

Senator LOTT. Just one final question: Ms. Phelleps, the bulk shippers are concerned that as applied to them the tonnage fee is

really an export tax because they end up paying both the inbound and outbound portions. What changes could be made to address that concern, if any? Do you have some ideas?

Ms. PHELLEPS. You could exempt vessels that come in empty. That would certainly—you could exempt vessels that come in empty. That certainly would help both the coal industry and the grain industry since most of the vessels come into the States empty and leave full.

Senator LOTT. Thank you, Mr. Chairman.

Senator BREAUX. Let us talk about it, Ms. Phelleps, a little bit. The cruise industry does not want to pay for it, the Defense Department does not want to pay for it, grain and coal industry do not want to pay. I understand that. Nobody wants to pay anything, and I understand that, and you are representing your industry very well.

The administration, I take it, has selected a tonnage fee because they feel that we have had it since 1790 and that throughout the course of this country's history it has been going—I guess the bulk—into the general Treasury to pay for programs that benefit all Americans. And they look at the fee, and I think they would say that over that course of time it has only been increased a few times in the whole history of our country. And therefore, when they look at a 14-cent-a-ton fee they feel that in light of the whole history of the tonnage fee this is something that is fair and reasonable to generate funds to be used for something that is important to the national security of the country.

And you may not know it, I am not trying to ask tricky questions because I do not know the answer, but how many times has the tonnage fee been increased? I know you pointed to the last time, but since 1790 they tell me it has been increased only a very few numbers of times.

Ms. PHELLEPS. Mr. Chairman, I am not an expert on the vessel tonnage tax, however it is my understanding that the last time it was increased was in 1990 as a part of the budget reconciliation.

Senator BREAUX. Yes, I know that, but I mean other than that.

Ms. PHELLEPS. And it had not been increased since 1909. So, there was a period of time from 1909 to 1990, and then approximately 3 years later we are looking at increasing it again 150 percent.

Senator BREAUX. I understand where you are coming from. New Orleans is obviously a very large coal exporting port, and ships come back and go up the river, the Mississippi, and probably one of the largest number of ships coming through any port anywhere in America is right there in Louisiana. But the rationale, they say and also from Mr. Estes and the cruise ships, is that in order to spread it out we limit it to five cruises, your ships being hit by 38 cents per passenger, and yours to about 14 cents a ton, and I know if I was in your position I would be saying the exact same thing, and I respect your testimony.

We will just have to try and figure out how to pay this. Mr. Stoker has recommended a program that the House has recommended in legislation, but they do not have a means to pay for it. They did not pay for the maritime reform bill. It is easy to pass legislation

if you do not pay for it. We can write some great things, if we do not have to pay for it.

We are trying to do the very difficult job of not only passing a piece of legislation that is a good idea, but we are also trying to find a way to pay for the good idea, because a good idea that is not paid for is no idea at all, and that is what we are facing, and your testimony is helpful and I appreciate it all.

This will conclude this panel. There is nothing in terms of additional hearings that are scheduled at this time. It may be that we will need some additional ones, but we will keep all of you abreast of what we decide to do.

I thank this panel very much for your testimony. This will conclude this hearing of the Senate Commerce Committee.

[Whereupon, at 4:20 p.m., the hearing was adjourned.]

APPENDIX

PREPARED STATEMENT OF THE JAPANESE SHIPOWNERS' ASSOCIATION

The Japanese Shipowners' Association (JPA) is pleased to submit comments in connection with the hearing on May 4, 1994, by the Merchant Marine Subcommittee of the Senate Commerce, Science, and Transportation Committee on funding proposals for maritime reform in U.S.A.

JSA is a nationwide organization of shipowners, charterers, and operators of Japanese nationality, representing 160 companies, of which purpose is to promote free and fair activity in shipping and to contribute to the sound development of the Japanese shipping industry. To these ends JSA engages in research on matters related to maritime transport in the public interest, compiles reports, statistics, and other material and submits its findings and opinions to government committees and other organizations.

The comments are directed principally to the proposed increases in the tonnage taxes contained in S. 1945. JSA opposes this approach toward raising revenue to support the proposed reform legislation for the U.S. merchant marine. In opposing the tonnage tax, however, JSA is not opposing a strong U.S. merchant marine. Representing the shipping lines of the trading partners of the United States, JSA supports the continued existence of U.S.-flag liner fleet.

JSA's opposition to the tonnage tax rests squarely on the fact that the greatest part of this tax will be paid by U.S. trading partners and their carriers (including Japanese carriers) and not by U.S. carriers.

JSA's own research shows our carriers pay 8.4 million in U.S. dollars in total for the fiscal year 1992. And the highest paid by one company amounted to 1.6 millions. JSA is unable to accept that foreign-flag carriers should be taxed for the millions of dollars needed only for domestic subsidy purpose of the United States.

Secondarily, it is clear that these increased tonnage taxes will have an adverse impact on U.S. manufactured exports and imports caused by tax falls on bulk movements.

JSA strongly submits that if the United States wishes to support its merchant marine, it should not do so by placing the principal burden on its trading partners and their ocean carriers.

JSA appreciates this opportunity to present its views on these important issues.

PREPARED STATEMENT OF THE COUNCIL OF EUROPEAN AND JAPANESE NATIONAL SHIPOWNERS' ASSOCIATIONS (CENSA)

The Council of European & Japanese National Shipowners Associations (CENSA) is pleased to submit comments in connection with the hearing on May 4, 1994 by the Senate Commerce, Science & Transportation's Merchant Marine Subcommittee on funding proposals for Maritime Reform.

CENSA is comprised of the National Shipowners' Associations of Belgium, Denmark, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Norway, Sweden and the United Kingdom, plus individual liner operators/container consortia from most of those Countries. These countries and their shipowners represent a large majority of the trading partners of the United States in the liner, bulk and tanker trades.

TONNAGE FEES

These comments are directed solely to the proposed increase in the tonnage taxes contained in HR 4003, sec. 203.

FUNDING PROPOSAL

CENSA opposes the proposed mechanism for raising revenue to fund subsidies for a U.S. flag fleet of liner vessels by levying substantial supplemental duties on all shipping movements in the international commerce of the United States. CENSA estimates that more than 75 percent of all sea-borne cargo shipments to and from the United States are carried in foreign owned vessels. Such a ratio is typical of many major trading economies, and reflects the diversity of the world's competitive maritime fleet.

The obvious consequence of the tonnage fee proposal is to place upon foreign shipping companies and their shareholders, the principal burden of funding a subsidy program for the U.S. flag liner fleet. In CENSA's view, it is unacceptable that foreign shipowners, trading with the United States with a full range of tankers and dry bulk carriers as well as container vessels in the liner trades, should be taxed specifically to subsidize a fleet of U.S. liner vessels, providing the larger part of its $100 million a year cost.

This levy would have significant detrimental effect on the profitability of ships operating in the United States international trade, and would undoubtedly have a direct impact on the cost competitiveness of some major cargo movements, especially in the bulk trades. The additional costs imposed would be substantial—an extra $5,000 per voyage for an average dry bulk carrier, up to $20,000 per voyage for large tankers, whilst liner companies would face increases in their U.S. operating costs ranging from $300,000 per year for those in a single intercontinental trade route to $3 million per year for the large multi-trade operators.

INTERNATIONAL RELATIONS

This proposed levy is contrary to the policy of the United States to foster international trade and reduce trade barriers among nations. The United States has entered into treaty obligations through multilateral agreements to uphold the principle that fees charged on international trade movements should be related to the service provided. However, the United States Administration has clearly stated that the purpose of this massive surcharge on the current level of fees is to fund the subsidy program. The "offsetting" mechanism is therefore no more than a device to avoid a direct violation of the United States' international obligations.[1] Such stratagems will invite retaliatory action and encourage other countries to pass on their maritime subsidy costs to their trading partners, including the United States.

CENSA appreciates this opportunity to present its views on these important issues.

PREPARED STATEMENT OF THE KIRBY CORP.

Mr. Chairman, the Kirby Corporation is a marine transportation company headquartered in Houston, Texas, and engaged, through its subsidiaries, in the operation of vessels on the inland waterway system of the United States and in both the coastwise and foreign trade of the United States. Kirby is committed to the objective of being the premier marine transportation company in the United States through the pursuit of a strategy of growth, diversification, and safe operating practices. Accordingly, we continually strive to improve our performance by close attention to customer service, safety, training, and environmental protection. Kirby's marine transportation subsidiaries are organized around the domestic and international markets they serve.

Specifically, Kirby's offshore division is engaged in the U.S. flag offshore tank ship and tank barge operations, offshore dry bulk cargo operations, and offshore container and break-bulk cargo operations transporting petroleum products, dry bulk,

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[1] The increase in tonnage duties is likewise contrary to principles of United States law. The term "tonnage duty" has a long history, beginning with Article 1, sec. 10, cl.2 of the constitution, and it has been defined by the Supreme court in *Clyde Mallory Lines* v. *State of Alabama*, 296 U.S. 261. 56 S. Ct. 184. 80 L. Ed. 215 (1935). It does not embrace a tax for subsidization of the US Merchant Marine. Further, the Supreme court has held that any user tax must be "a fair approximation of the cost of the benefits supplied." *U.S.* v. *Sperry Corp.*, 493 U.S. 52, 60 110 S. Ct. 387, 394 (1989); *Massachusetts* v. *United States*, 435 U.S. 444, n. 19, 985. Ct. 1153, 1165 n. 19, 55 L.Ed. 2d 403 (1978), and it has rejected discriminatory user taxes. Se: *American Trucking Associations Inc.* v. *Scheiner*, 483 U.S. 266, 1075. Ct. 2829, 97 L.Ed. 2d 276 (1987)). Given the clear purpose behind the proposed increase in tonnage duties to support and benefit the U.S. Merchant Marine and the discriminatory impact of the tax on foreign flag vessels, which are also prohibited from those benefits, the proposed tonnage tax is contrary to the principles of U.S. law and to the agreed national treatment extended to foreign nations and vessels under U.S. Friendship, commerce and Navigation Treaties.

container and palletized cargoes, including agricultural commodities, to ports along the Gulf Coast and Atlantic Seaboard and the Caribbean Basin as well as South America, West Africa, and Europe. Through Sabine Transportation, we operate a fleet of handy-size tankers between 28,000 and 35,000 deadweight tons transporting petroleum products domestically and internationally. Through Dixie Carriers, we operate ocean-going tank barge and tug units as well as being the second largest domestic offshore dry bulk barge carrier transporting dry bulk cargoes, primarily coal, limestone, cement, fertilizer, flour, raw sugar, and grain.

Internationally, Kirby transports international agricultural aid cargoes for the U.S. Government through both Dixie Carriers and AFRAM Carriers. AFRAM Carriers gives us the capability for offshore break-bulk and container operations specializing in transporting United States Government aid and military cargoes. Through Americas Marine Express, we serve exporters and importers in the north, central, and mid-south states with direct, all-water container service to growing markets in Mexico and Central America from Memphis, Tennessee.

We are proud of the extensive, multifaceted marine transportation operation we are building and feel it demonstrates our serious commitment to providing the type of service needed in the U.S. domestic and international markets for many years to come. True maritime reform, therefore, is a real concern for us.

Thus, we appreciate the opportunity to submit testimony on the vitally important subject of maritime reform. We want to state at the outset Kirby's complete support for reforming the existing maritime promotional and regulatory regime. While we generally support H.R. 2151 and the Administration's maritime reform initiative, and will be prepared actively to work for its passage, we do so because of its importance as a transitional, stop-gap measure necessary to avoid the immediate flight of major U.S.-flag liner operators to foreign-flag, with the concomitant devastating impact on our seagoing labor and shipbuilding resources. Thus, while vitally important, H.R. 2151 and the Administration's proposal will not effect real, long-term maritime reform because they ignore the root causes of the U.S.-flag's lack of competitiveness. U.S.flag competitiveness problems have been attributed to the substantial body of maritime laws and regulations contained in the Merchant Marine Act, the Shipping Act, and other shipping laws of the United States. However, they relate to a larger extent to the entire complex of laws and regulations and the sociopolitical environment required of American citizenship. The United States is the sole remaining superpower. Our defense establishment, international obligations, and domestic concerns impose a significant cost burden on all American citizens.

We in the ocean shipping business regularly compete with the ships on whom virtually none of those costs are imposed. Let us give you an example. In the domestic transportation of commodities, trucks, trains and airplanes all compete with one another. They are all subject to U.S. income taxes, social security, Medicare tax, OSHA regulations, fair labor standards, minimum wage, ERISA, Clean Air Act requirements, etc. Each of these laws, and countless more, represent the public policy of the United States, articulated as binding requirements on all domestic transportation companies including U.S.-flag vessel operators. But these other domestic transportation companies do not compete, as do we in the marine business, with carriers who have none of those requirements. Indeed, other domestic transportation companies have the advantage of being able to procure their "vehicles" anywhere in the world where U.S. maritime companies cannot. Nor do they compete, as do we and our American shipyards, with operators who benefit from massive government subsidization, unfair trade practices, and non-tariff barriers.

Similarly, even where the trades are protected—as with the Jones Act and cargo preference—a substantial cost differential cannot perpetually be supported. The protection of those trades is a matter of public policy. The public, if not fickle, is nevertheless cost conscious. It justifiably demands to know the reason for the nigher cost and our industry has done a poor job of answering. The public now demands that we address those higher costs. H.R. 2151 and the Administration's proposal do not do that. Real, lasting maritime reform must.

The MSF payments and, to some extent, the Series Transition Payments (STPs) for the shipyards, are intended to address some of those cost differentials. As noted, because of the critical need to address the problem before huge numbers of vessels and maritime jobs leave the United States, we think it worthy of our support. Necessarily the program will be more limited in coverage of carriers than all of us would wish. We think it mandatory, therefore, that the program be recognized as a transitional one, that it be coupled with a commitment by all in the government to address, immediately after enactment, the root causes of our competitiveness gap, and that the program not work to disadvantage those American carriers who will not receive MSF payments.

For the same reason, we think it critical to separate the shipyard problems. Shipyards are no less worthy of support than ship operators. Each must be assisted; but neither can carry the other. Today, an American operator competing worldwide who is required to build its new tonnage in the U.S. will not build at all, helping neither the shipyard nor the operator.

There are several areas where the support provided under the pending legislation unfairly affects U.S.-flag operators, like Kirby, who will not receive MSF payments. Since the purpose of the promotional incentives is to preserve the carriers who compete internationally, it makes no sense to disadvantage carriers, like ourselves, who will compete without those supports.

1. *Double Subsidy:* Under H.R. 2151 MSF would pay liner operators to carry preference cargoes, including, without abatement of subsidy, all bagged cargo and bulk cargoes in lot sizes up to twelve thousand (12,000) tons. The Administration bill reduces the lot size to five thousand (5,000) tons. Those are precisely the cargoes Kirby carries. Accordingly, carriers receiving MSF payments should be prohibited from carrying those cargoes or, alternatively, U.S.-flag carriers not receiving MSF payments who are available should be given the first opportunity to carry them.

2. *Tonnage Tax:* The Administration proposes to finance the new program with an increase in the vessel tonnage tax. While we worry that, the deficit being what it is, the tax revenues will be diverted, the tonnage tax mechanism nevertheless has much to commend it. It will be paid by all vessels, U.S. and foreign-flag, and is an existing taxing mechanism. Again, however, those carriers, such as Kirby who will not be receiving $2.5 million per vessel per year, will be called upon to pay that higher tax while competing head to head with those vessels who receive it. Where the preference trades are involved, the across-the-board tonnage tax increase will unfairly disadvantage non-recipients such as Kirby. Moreover, to the extent that tax increases can be passed on in the rate, it will result in no net revenue because the government pays the rate for preference cargoes. Accordingly, we recommend that vessels not receiving MSF payments be exempt from the tonnage tax altogether when carrying government impelled cargoes.

With the elimination of the two disadvantages outlined above, Kirby will support maritime reform legislation. But we urge in the strongest possible terms that this legislation not be viewed as an end product but as a means to support portions of the existing fleet while fundamental reform is formulated and implemented. We must achieve reform in the areas of rational and internationally competitive crew size, internationally competitive construction and repair costs, and international tax parity if the U.S.-flag fleet is to survive long term. Failing this, the U.S. flag is going to dwindle and die as it fights for subsidy dollars.

We thank the Committee for allowing us to submit this testimony. We look forward to-working with the Senators and their staffs in the near future as this legislation is considered. Thank you.

PREPARED STATEMENT OF MCDERMOTT, INC.

McDermott Inc. appreciates the opportunity to state its position with respect to the legislative initiative for maritime reform before this Congress.

McDermott's primary U.S. policy objective has been and continues to be the conclusion of a multi-lateral trade agreement which will force other nations to eliminate their subsidies and simply provide us with the opportunity to compete on a level playing field. To this end, we have actively supported legislation in the House and Senate which would leverage those nations into signing such an agreement, and we have actively participated in the OECD shipbuilding negotiations themselves. Thanks to the efforts of Congress and the USTR, we are now closer than ever to achieving a multilateral shipbuilding trade agreement which will provide the opportunity for U.S. yards to enter the global market on a reasonably equal footing. We remain totally committed to supporting the shipbuilding trade legislation in both the Senate and the House and we urge you to continue to move forward toward enactment. We also remain fully committed to our participation in the OECD process and we sincerely appreciate the support we have received from Congress in these critical negotiations.

Mr. Chairman, it has been our long understanding that the "Maritime Reform initiative" of this Congress was to contain both ship operator and shipbuilder components, and that the cornerstone of the shipbuilder component was the shipbuilding trade initiative. We urge you to stay on this course and prevent anything from derailing our long and hard fought shipbuilding trade agreement now that we are so close to a successful conclusion.

As always, McDermott sincerely appreciates the opportunity to express its views.

PREPARED STATEMENT OF THE NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE

The National Industrial Transportation League welcomes the opportunity to comment on the Administration's proposal, S. 1945, A Bill to Authorize Appropriations for Fiscal Year 1995 For Certain Maritime Programs for the Department of Transportation, to Amend the Merchant Marine Act, 1936, As Amended, To Revitalize the United States Flag Merchant Marine, and For Other Purposes. League members include many of the largest industrial and commercial concerns in tho United States, as well as numerous smaller shippers. The League also represents groups and associations of shippers in national and international transportation. Our members are substantial users of all modes of transportation, including U.S. and foreign-flag ocean commen carriers. League members export and import substantial quantities of products from points all over the world, and are, therefore, greatly affected by maritime policy. Stated simply, League members are the customers of the ocean transportation system.

We specifically wish to focus our views on Title H of this measure which is entitled the "Maritime Security and Trade Act of 1994." Title II is also known as the "Maritime Security Program" since it proposes a new assistance program to provide government subsidies for the operation of 52 U.S. flag ships through the year 2004. Total expenditures would run $1 billion over the 10 year program. Funding for this subsidy would be derived from raising the current commercial vessel tonnage tax by approximately 150 percent.

NEED TO REFORM THE U.S. MARITIME INDUSTRY

Senate Commerce Committee Chairman Hollings in the March 17 Congressional Record cited one of the justifications for introducing this legislation is that, "maritime reform is vital to the continued existence of the U.S. merchant marine, which is so critical to our national interest," Unfortunately the Administration's bill merely perpetuates failed policies of the past which have been predicated on government handouts.

Maritime reform must address wholesale changes which are necessary for the industry's long-tern survival. These reforms must include: (1) limits on the amount of ocean cargo capacity allowed to be aggregated into ocean pricing cartels also known as ocean conferences; (2) a prohibition on conferences interfering with contract negotiations between an individual ocean carrier and the U.S. importer or exporter; and (3) an end to the Federal Maritime Commission's contract filing requirements, so that terms and provisions of ocean contracts will remain confidential, just as they are everywhere else in the world as they are in most U.S. business.

The League strongly favors a minimum of economic regulation in the maritime industry, primary reliance on the forces of competition to encourage responsive and innovative pricing and service practices, and the use of contracts to provide rate and service stability to increase shipper and carrier productivity. The United States must have a modem and efficient ocean transportation system if U.S. businesses are to have the opportunity to compete in the world marketplace. A truly efficient ocean transportation system must be one in which shippers and carriers are afforded the legal right to negotiate price and service levels on a fair and equitable basis without third party interference. (This interference includes those obstacles that are manifested from byzantine regulations and the business as usual rules of ocean conferences.) This environment will not only enhance the ability of U.S. industry to meet customer needs, but it win result in increased economic vitality to the carriers serving the U.S. trades.

U.S. companies today are generally not allowed to negotiate transportation contracts with individual ocean carriers. Although the 1984 Act permits contracting, in practice there is no true negotiation between the parties. They are forced under most circumstances to deal with an organized conference of carriers which are exempt from anti-trust laws which, in many instances, does not understand the importer's or exporter's particular needs. In most circumstances, a conference will merely publish discounts in a table format and then tell the shipper to take it or leave it. We do not view this as contracting in the normal sense where parties may sit down and work out terms that are acceptable to each side. These practices are in direct contrast to foreign companies that can and do enter into such arrangements. Thus, foreign companies have a competitive advantage in entering foreign markets, leaving U.S. companies at a distinct disadvantage.

Opponents to these reforms have stated that change would cripple the ability of U.S. flag carriers to survive. This is the same argument that was made by various sectors of the domestic froight transportation industry regarding deregulation of the motor carrier and railroad industries in the late 1970s. For example, the railroad industry prior to 1980 as the U.S. maritime industry is today was in the midst of

a great economic depression. The passage of the Staggers Rail Act brought about many of the reforms that we today advocate for the U.S. ocean transportation industry. Today, rail shippers and carriers function as true business partners, and the rail freight industry enjoys near-record prosperity. For a complete understanding of the reforms we have outlined, we suggest the committee refer to the attached recommendations provided by League Chairman Roger W. Wigen to the Advisory Commission on Conferences in Ocean Shipping. (This information may be found in the committee's files.)

Without inclusion of these economic reforms, we believe the Administration's bill is doomed to repeat the mistakes of the past quarter century. U.S. carriers may manage to survive on this government welfare program, but is this the best fate we can expect from a fleet that represents this country around the world?

LEAGUE'S POSITION STATEMENT SUPPORTING A U.S. NATIONAL MARITIME POLICY

Earlier this week, the members of the League's International Transportation Committee approved a position statement supporting a U.S. National Maritime Policy. The enclosed statement sets forth the basic changes which must be incorporated into a successful plan designed to reverse the economic chaos of today's U.S. ocean transportation system. It offers a comprehensive rather than the piecemeal Bach included in S. 1945 and similar proposals.

NATIONAL DEFENSE NEEDS

The Administration's measure is dependent on a $1 billion program to be financed by increasing the current tax on commercial vessels entering U.S. ports by approximately 150 percent. Since one of the stated purposes for this legislation (as evidenced in part by the program's title) is to have a U.S. flag liner fleet available for national defense needs, it seems reasonable that the Department of Defense would be interested in providing financial support for this program. However, it is our understanding that the DOD has little or no interest in keeping U.S. flag liner vessel ships operational since the types of ships earmarked for this legislation would be of little or no use to them in times of a national crisis. If the DOD refuses to support U.S. liner shipping, then we wish to challenge the proponents claims for meeting national security requirements.

It is unfortunate that promoters of the bill are unable to devise more inventive arguments because U.S. shippers strongly wish to maintain a U.S. flag presence. It is in the shippers best interest to see that these carriers can viably operate and service their needs. But a U.S. flag fleet must be economically sound and operate efficiently to remain in business for the long term. While government funded support may be required in the interim to maintain the existence of U.S. flag ships, it must never be considered the final solution for the fleet's continued operations.

CONCLUSION

Maritime reform should be based on a national maritime policy which finally recognizes that the U.S. needs an ocean transportation system capable of providing cost efficient and effective service. Such a system will evolve when the constraints of a regulated environment are eliminated and the creation of equal partnerships between shippers and carriers are permitted. It is clear that this legislative proposal is myopic in its approach and does nothing for improving the health of the U.S. maritime industry. We stress to the Committee that there is no reason to continue pouring money into policies which are proven failures. In the early seventies when the current expiring contracts were signed, it was well known to the liner operators under subsidy that this was their final drink at the trough. While we actually support continued temporary assistance for U.S. flag liner operators, it must be linked to the economic reforms we outlined above.

The League and the overwhelming majority of all U.S. shippers believe that fundamental change is required to revitalize the U.S. maritime industry and for the first time permit U.S. carriers serving this country's world trade to be more responsive to customers needs. The League takes strong exception to the comments by some maritime interests that contract confidentiality, limitations on antitrust immunity for collective rate action, and elimination of the filed rate doctrine would destroy the U.S. flag ocean transportation system. To the contrary, such changes would strengthen ocean carriers' ability to competitively price their services. U.S. shippers, in turn, could be more competitive in global markets as carriers are free to respond to customers' competitive needs.

Finally and most importantly the economic reforms we propose will not cost one penny of taxpayers money.

We welcome the opportunity to work with the committee and the staff in fashioning a legislative package which truly embodies maritime reform.

THE NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE POSITION STATEMENT IN SUPPORT OF A U.S. NATIONAL MARITIME POLICY

There is much discussion in Washington about the need for maritime reform. However, it has become increasingly evident that the Executive and Congressional branches of government have failed to understand why the United States needs a comprehensive national maritime policy. While it is universally agreed that the U.S. maritime industry is in economic turmoil, there is considerable disagreement as to what should be done to reverse its decline. Proposals grouped under the term, "maritime reform" merely preserves the status quo, pump endless dollars into a U.S. flag liner fleet and do little in treating the root causes for the industry's economic illnesses.

We need to stop wasting valuable resources worrying about: why the nation's liner fleet and shipyard industries require subsidies?; under what formulas they are applied?; and, who should be responsible for funding them? In the alternative, we should be focused on bringing about operational efficiencies to our nation's maritime industry which is so vital to our country's ability to be a world trader. Bringing about real reform means that we must go beyond the current "bandaid mentality" whose sole proponents are special maritime interests.

Fashioning, fostering and implementing a national maritime policy requires the League to identify key objectives. These principles, at a minimum, must include an overall restructuring of the basic ways in which business is conducted in the U.S. ocean transportation industry. The foundation under which a national maritime policy is predicated must include a reduction and eventual elimination of economic regulation which currently places a strangle hold on the ability of U.S. businesses to be competitive in the world marketplace.

Essential elements of the new national maritime policy also must:

- apply the existing antitrust laws to all ocean carriers and their business activities within the existing conference system;
- allow for independent negotiations between individual carriers and shippers with provision for confidential contracting;
- separate common and contract carriage;
- foster economic partnerships between shippers and carriers; and,
- eliminate the filed rate doctrine.

Implementation of this policy may only be affected through legislative changes to applicable U.S. laws affecting international liner shipping. This position is in concert with the current maritime policies of the League as set forth under "I. Maritime Matters", I-1 through I-7.

PREPARED STATEMENT OF PHILIP J. LOREE, CHAIRMAN, FEDERATION OF AMERICAN CONTROLLED SHIPPING (FACS)

Our organization's membership comprises American companies which own, operate, manage, charter, finance or otherwise utilize open registry vessels. Indeed, one of the primary objects and purposes of FACS, as stated in its Articles of Association, is:

> "To encourage free and open maritime trade throughout the world, to oppose artificial and unreasonable restraints on such trade and to facilitate international maritime trade by stressing that flexible, efficient and dependable shipping arrangements are essential to shippers, cargo owners and receivers."

Thus, unlike organizations concerned solely with the interests of ship operators, we have a broader mandate and must view a legislative proposal such as S. 1945 not only from the standpoint of its impact on American shipowning companies but also its impact on American cargo owners.

We view the proposed tripling of the vessel tonnage tax in S. 1945 as a classic example of a proposal that would tend to impede or interfere with the flexible, efficient and economic movement of maritime trade internationally. Indeed, we find it difficult to believe that its proponents could seriously endorse a funding measure that would add $100 million a year to the oceanborne transportation costs of American exporters and importers and thereby seriously disadvantage them in the international marketplace.

The proponents of tripling the tonnage tax seem to have lost sight of the fact that vessels exist to serve trade, not vice versa. The end result of funding the vessel subsidy program to preserve roughly 1,100 shipboard billets would be to jeopardize

thousands upon thousands of shoreside jobs in the United States which are inextricably linked to the international competitiveness of American exporters and importers.

The proponents of the tonnage tax increase apparently believe that operators of vessels in our foreign oceanborne commerce, roughly 96 percent of which is carried on foreign registered vessels, would simply absorb the added costs of entering U.S. ports on their first five voyages each year. In the real world the charter markets do not work that way. The reality is that any significant costs of visiting a particular loading or discharge port are passed along to the charterers, the shippers, or the passengers, as the case may be. A tax levied by Congress on vessels serving our foreign commerce is really an indirect tax on the American users of the vessels' services.

Tripling the tonnage tax to subsidize liner vessels would mean that roughly 90 percent of the tax would be paid by the exporters and importers of bulk and other non-liner commodities. The September 1993 study, "Review of U.S. Liner Trades," by the Division of Economic Analysis of the Maritime Administration indicates that 1992 non-liner cargoes accounted for 90 percent of the 467,000,000 long tons of inbound cargoes in U.S. oceanborne trade, and 85 percent of the 303,000,000 long tons of outbound cargoes. The rough correlation that exists between deadweight, gross and net registered tons indicates that, ironically, the American users of non-liner vessels would be required to pay most of the cost of subsidizing a U.S. flag liner fleet.

The proponents of the tonnage tax also miscomprehend how the charter markets operate in the non-liner trades when they project costs based on the erroneous assumption that rates for specific vessels will automatically drop once those vessels have completed five voyages in a given year. Under normal market conditions, where there are available vessels subject to the added tax and some not subject to further taxation because they have completed their maximum five voyages in that year, the spot rates sought by the latter group of vessels would tend to rise to levels just below those sought by vessels subject to the tax. In effect, the latter group would be seeking "economic rent" in a two-tier charter market, and it would be the American exporters and importers who would be paying that "rent."

A similar impact on charter rates could occur under market conditions where one vessel available for charter might be arriving at a U.S. port from, say, Venezuela and another from, say, North Africa. Under S. 1945 the former would be subject to a lower tonnage tax (27 cents per net registered ton) than the latter (71 cents per NRT) , but the market rate would tend to be influenced by the higher tonnage tax rather than the lower tax. That is because the vessel from Venezuela would be seeking to earn economic rent by offering a rate just slightly below that of the vessel from North Africa.

It should also be kept in mind that the bulk trades operate much differently than the liner trades, relying heavily on tramping rather than back and forth shuttle operations. This means that even if economic rent were not a consideration, most bulk exporters and importers would get little or no relief from the cap on five voyages per vessel per year. For instance, a review of the 78 bulkers delivering some 3½ million tons of bauxite to a Texas refinery during 1993 indicated that none of the vessels had made more than five voyages to the Unitod States. Notably this particular company estimates that on the basis of 1993 shipments to its various facilities, tripling the tonnage tax would increase its costs by about one million dollars per annum.

There are various examples that can be cited to show that if the costs of moving cargoes in the nation's foreign commerce are increased, while the costs of their foreign competitors remain static, Americans will find it increasingly difficult to compete in the global marketplace.

For instance, Americans seeking to export forest products from Moorehead City, North Carolina would find that a 36,000 deadweight ton bulker arriving from Europe to load wood chips would be assessed with a tonnage tax of $13,490 instead of the current tax of $5,130. On a low value commodity such as wood chips, the added transportation cost could deprive the American exporters of sales abroad, to the detriment of American forest product workers in the Carolinas.

Another example is the American coal exporter who charters a 100,000 deadweight ton bulker arriving from, say, the Mediterranean to be light-loaded in Charleston, South Carolina with 50,000 tons of coal destined for Europe. The tonnage tax under S. 1945 would total $29,820 (about 60c per ton of coal) or $18,480 more than the current tonnage tax. In the highly competitive international coal trades, where American exporters are already losing ground, the added tonnage tax costs could mean more coal sales by Colombians, Venezuelans, South Africans, Australians, etc.—and lost jobs for Americans.

The American grain exporter who charters a 60,000 deadweight ton bulker arriving in New Orleans from Europe to transport American wheat to foreign markets would, under S. 1945, have to contend with a tonnage tax of $16,712 for that voyage, instead of the current tax of $6,356. Prior to 1991 the tonnage tax for such vessel was $1,412, which means that the tax would have jumped well over ten times in less than four years.

In the intensely competitive world marketplace for agricultural commodities, American farmers would be the ultimate losers if spiraling tonnage taxes in this country made it impossible to compete against their foreign counterparts in markets where a few cents per ton may determine the winner of the export sales competition.

The chemical industry would face a crippling double hit from the proposed tonnage tax increase, because chemical manufacturers have to import feedstocks and then export their chemical products, typically on different vessels.

At the same time, some shipping practices providing competitive advantages to Americans could be effectively eliminated. For example, coal exports from Hampton Roads, Virginia to Japan are sometimes shipped in largo, highly economic Capesize bulkers in the 150,000 to 200,000 deadweight tons range. Because of draft limitations the Capesize bulkers are light loaded in Virginia but then are topped off to full capacity with coal in Richards Bay, South Africa or iron ore in Brazil on the voyages to Japan. Under S. 1945 a 200,000 bulker arriving at Hampton Roads from the Far East would be assessed a tonnage tax of about $44,730—or a cost of almost 4lc per ton of cargo. That level of taxation would rule out the future light loading of Capesize vessels in Hampton Roads and deprive American exporters of the economies of scale derived from using light-loaded Capesize bulkers.

Of course, U.S. ports would be hard hit by a tripling of the tonnage tax, especially those ports subject to competition for cargo diversion to Canadian ports. The ports in this category include Seattle and all of the American ports on the Great Lakes.

There are countless other examples of how Americans could be hurt by the proposal in S. 1945 to triple the tonnage tax to pay for an unrelated domestic subsidy program benefiting a relatively few but very likely harming many other Americans.

We believe that in today's highly competitive global economy it would be myopic for the U.S. Congress to burden the service industry which transports the nation's oceanborne foreign trade at internationally competitive rates. Tripling the tonnage tax to pay for an unrelated domestic program might seem, at first glance, to be a way to slough off politically distasteful costs on foreign enterprises. But it is really a tax that would disadvantage Americans who must compete in the international marketplace.

We urge your Committee to reject the proposed tripling of the tonnage tax in S. 1945.

PREPARED STATEMENT OF THE AGRICULTURE OCEAN TRANSPORTATION COALITION

The Agriculture Ocean Transportation Coalition (hereinafter "AgOTC") represents growers, producers, processors and service providers, in the food, farm, and fiber industries, generally known as the agriculture sector. Representative commodities include citrus, cotton, nuts, seeds, vegetables, fresh fruit, processed foods, poultry, meat, frozen foods, etc. Members of the AgOTC include trade associations and individual companies which ship agriculture commodities by liner and bulk vessels.

OVERVIEW

Under S. 1945, the current U.S. vessel tonnage tax would be increased by about 150 percent. For most vessel calls, the increased tax will run about US$2.94/FEU. The money would be collected on all vessels (US or foreign-flag) calling on the United States ports. The money would be spent on US-flag container vessels which are 15 years or younger.

For reasons set forth more fully below, the AgOTC adamantly opposes the funding mechanism in S. 1945, as tho burden of the increased vessel tonnage tax will fall squarely and solely on the U.S. export/import community, further raising the cost of international ocean transportation. The AgOTC does not oppose the intent of the legislation, that of subsidizing the U.S. flag fleet. The AgOTC does not believe, however, that the end warrants the proposed means (a further threat to U.S. export competitiveness). Further, this proposed new tax has already been identified by foreign governments as clearly violating the GATT.

SHIPPERS WON'T BEAR THE BURDEN ALONE

As a rule, shippers generally do not oppose a subsidy for the US-flag operators, as long as it comes out of general Treasury revenues. Alternatively, as supporters of this legislation assert the need for a merchant marine for national defense purposes, the Department of Defense budget would provide logical funding source. Rut forcing importers and exporters who are using primarily foreign-flag vessels anyway, to pay for the subsidy for U.S.-flag operators through increased transportation costs, lower profit margins, and therefore reduced competitiveness in foreign markets, is simply unacceptable.

NO MORE TRADE TAXES

The vessel tonnage tax was just recently increased 450 percent, in 1990 as part of Omnibus Budget Reconciliation Act. It was due to revert back to its original rate in 1995, but the higher rate was made permanent in 1993. Just four years after raising the tax 450 percent, the Administration now proposes to increase it another 150 percent.

It is argued by proponents of the tonnage tax increase that it will be the operators of vessels in our foreign oceanborne commerce (96 percent of which are foreign-flag vessels) who would absorb the added costs of entering U.S. ports on their first five voyages each year. The reality is that any significant costs of calling on a particular port are passed along to the shippers. Any tax levied on vessels serving our foreign commerce is really an indirect tax on U.S. exporters and importers.

For the American exporter of agricultural products in either a dry or refrigerated forty-foot containers (FEUs), the additional cost would be $2.94 per container. While a seemingly small amount, for price-sensitive agricultural commodities, it can make or break an overseas market.

For the American grain exporter chartering a 60,000 deadweight ton bulker to transport wheat to foreign markets would, under S. 1945, be forced to pay a tonnage tax of $16,712 for that voyage, as opposed to the current tax of $6,356. Furthermore, prior to 1991, the tonnage tax for the same vessel was $1,412. If enacted, the current tax increase would constitute more than a ten-fold increase in the tonnage tax over four years.

It is ironic that U.S.-flag ocean carriers, which have so aggressively joined with shippers in opposing the accumulation of taxes on international trade (such as the Harbor Maintenance Fee, the Customs User Fee, Coast Guard inspection fees, etc.) are now the primary proponents of yet another "trade tax."

BULK USERS TO SUBSIDIZE LINER VESSELS

Proponents of the increased vessel tonnage tax argue that shippers, as beneficiaries of a healthy U.S.-flag liner fleet, should pay the cost of subsidizing this fleet. Yet the overwhelming majority of U.S. port calls are made by foreign, nonliner vessels.

The 1993 study, "Review of U.S. Liner Trades," released by the Maritime Administration's Division of Economic Analysis, found that 1992 non-liner cargoes accounted for 90 percent of the inbound cargoes in U.S. oceanborne trade, and 85 percent of outbound cargoes. This means that the American exporters and importers of bulk and other non-liner commodities would be required to pay most of the cost of subsidizing a U.S. flag liner fleet.

Even more inequitable is the fact that the operators of foreign-flag ships, liner and bulk, will have to pay into a fund to subsidize the U.S.-flag fleet. Of course, it won't come out of their own pockets—it will simply be passed on to the shipper.

TAP OTHER FUNDING SOURCES

The AgOTC cannot support any proposal to subsidize U.S. steamship companies on the backs of importers and exporters. A more general revenue source must be identified. If shippers, who ship primarily on foreign-flag vessels, are somehow construed as the "beneficiaries" of a U.S.-flag fleet, then every U.S. citizen, as consumers of the commodities we ship, must also "benefit" from a U.S.-flag fleet.

Or if, as the Administration claims, these container vessels are essential for national defense, then the subsidy should come from our Defense budget.

In any case, targeting the already over-burdened agriculture shipper is inequitable and counterproductive. As transportation costs continue to rise, and slim profit margins continue to erode, there will soon be no commodities left to ship on our newly subsidized U.S.-flag liner fleet.

CONCLUSION

Assisting one U.S. industry at the severe disadvantage of another U.S. industry does not resolve any problems—it simply displaces tho injury. If the Administration feels that a U.S. flag liner fleet is necessary for our nation's well-being, then the burden of maintaining such a fleet should be dispersed evenly among U.S. taxpayers.

PREPARED STATEMENT OF THE AMERICAN GREAT LAKES PORTS

The American Great Lakes Ports are the U.S. members of the International Association of Great Lakes Ports, an organization founded with the opening of the St. Lawrence Seaway 35 years ago. Our ports are the maritime centers along the thousands of miles of U.S. shoreline from New York and Pennsylvania in the east, to Wisconsin and Minnesota in the west. We believe maritime transport is essential to the economic vitality of our region. A recent study showed that more than 44,000 U.S. jobs are tied to our waterborne commerce.

As American ports, we favor a strong and competitive U.S. merchant marine. We support the portions of the legislation before the Committee which would advance this goal and enhance the revitalization of the U.S. maritime industry generally.

Unfortunately, however, we in the Great Lakes get virtually no service from U.S. flag ships in our international trade. While we have an active, capable Jones Act fleet, and hundreds of visits annually from foreign merchant ships through the Seaway, the number of calls from ocean-going U.S. ships to our ports in a typical year is zero.

One major consequence of the absence of U.S. flag ocean service for us is the denial of equal opportunity to compete for U.S. government-impelled cargoes. With cargo preference reserving cargoes to U.S. vessels, and no U.S. sea-going ships coming to Great Lakes ports, our coastal range is effectively shut out from this important government business.

The House of Representatives recognized this unfairness to us in passing its maritime revitalization bill, H.R. 2151, which is now before you. Sec. 15(c) of H.R. 2151 provides a remedy through directing the Secretary of Transportation to ensure and maintain a significant increase in our government-impelled cargoes, which at present are nearly non-existent.

Chairman Studds of the House Merchant Marine Committee explained the purpose of Sec. 15(c) is to "ensure that maritime reform and revitalization touches all American ports and waterways." The House adopted the provision without dissent.

It should be noted that Sec. 15(c) is in no way a set-aside as was the PL 480 mandate for the Great Lakes in 1985-89. Under Sec. 15(c), tho Great Lakes must compete with all other coasts for any government business we might get. If we do not make the best offer, we do not get an allocation. Under 15(c), we get a fairer opportunity to compete, but no other coastal range is prevented from bidding for the same cargo.

We agree with the House effort in 15(c). The Great Lakes should not be left out of the maritime revitalization effort. The people of our region are being asked to help pay for the substantial financing needed for maritime reform. We should not be asked to make this sacrifice for a system which, as it presently stands, in effect denies our participation in preference cargoes. If a remedy for this unfairness to us is not in legislation reported by the Senate Committee, as it was in the House bill, we could not be expected to support the bill. We ask that you include a provision similar to Sec. 15(c).

While we do favor efforts to revitalize the merchant fleet and make it more competitive, we believe there are other alternatives to funding better than increasing the tonnage tax as proposed by the Administration. We do not want to damage U.S. trade, and the U.s. Great Lakes ports are particularly vulnerable to cargo diversion from trade taxes because of our proximity to competing Canadian ports. We support the position nationally of the American Association of Port Authorities in this matter. We will be glad to suggest options if the Committee is interested.

PREPARED STATEMENT OF JEAN C. GODWIN, VICE PRESIDENT OF GOVERNMENT RELATIONS, AMERICAN ASSOCIATION OF PORT AUTHORITIES

Thank you for the opportunity to submit this statement for the record on behalf of the American Association of Port Authorities on funding proposals for a maritime revitalization program. Founded in 1912, AAPA represents virtually every U.S. public port agency, as well as the major port agencies in Canada, Central and South

America and the Caribbean. My testimony today reflects only the views of the United States delegation of AAPA.

Our Association members are public entities mandated by law to serve public purposes—primarily the facilitation of waterborne commerce and the consequent generation of local and regional economic growth. As public agencies, AAPA members share the public's interest in serving our country's economic, international trade, and national security objectives.

AAPA supports the need for a maritime revitalization program to support a U.S. flag fleet and shipyards and maintain a pool of skilled U.S. crewmen. U.S. ports support the Administration's proposal to create a Maritime Security Fleet. The existence of a strong U.S. flag fleet in international trade provides needed competition, to the benefit of U.S. ports and shippers, as well as meeting our national security needs. In addition, we support the shipbuilding initiatives that the Administration has already undertaken, including a strengthened Title XI loan guarantee program, research and development funding and marketing assistance.

U.S. ports have historically viewed the use of taxes on trade to fund even the most worthwhile programs. In this instance, we remain concerned about the potential negative impact that could result from an increase in the vessel tonnage tax to pay for the program. We encourage Congress to consider alternative funding mechanisms, particularly the Department of Defense budget, since the Department will be a primary beneficiary of the program.

U.S. ports and U.S. trade have already suffered from the series of trade tax increases included in the 1990 budget agreement. At that time, Congress raised the vessel tonnage tax by 350 percent, from 6 to 27 cents per ton for most ships (those arriving from beyond the Western Hemisphere) and from 2 to 9 cents per net registered ton for vessel arriving from the Western Hemisphere. The proposal to fund the Maritime Security Fleet would add an additional increase of approximately 160 percent on top of the current levels.

Public port authorities are keenly aware of the fiscal crunch that the federal, state and local governments are experiencing. As the costs of providing government services continues to rise, so does the need to generate additional revenue. While we appreciate the government's need to find new revenue sources, regressive taxes on trade are not the answer. Greater trade tax burdens on trade will slow, not hasten our economic recovery. At the same time, a strong merchant marine is in the nation's best interest and serves our national security needs. Revenue for such a proposal should rely heavily on the Defense Department, which is the main beneficiary of an available U.S. flag fleet and skilled U.S. crewmen. We urge the Committee to consider alternative funding sources, not taxes on trade, to pay for this important program.

Public ports serve as a vital conduit linking the United States to the world marketplace, a critical intersection in the intermodal chain. Ports serve broad hinterlands, connecting farmers, manufacturers and suppliers often thousands of miles inland to international markets sometimes tens of thousands of miles from our shores.

International trade creates tremendous positive economic impacts at the local, regional and national level. According to recent figures from the Maritime Administration, in 1991 commercial port activities resulting from cargo operations created 1.5 million jobs, contributed $70 billion to the gross national preduct, provided personal income of $52 billion, and generated federal taxes of $14 billion, state and local taxes of $5.3 billion. The deep draft commercial ports of our country handle over 95 percent of the nation's international trade—nearly one billion tons of cargo a year worth nearly 500 billion dollars.

The importance of ports to local, state and regional economies cannot be overstated. Exports today are increasingly necessary to the health of America's economy, representing one out of six new U.S. manufacturing jobs. Exports accounted for 90 percent of U.S. (3NP growth last year. According to the U.S. Department of Transportation, U.S. ports spent more than $11.8 billion from 1946-1991 on port and related shoreside infrastructure and are expected to spend more than $5.5 billion over next five years.

U.S. ports face stiff competition from their Canadian counterparts. Cargo destined to or from the U.S. midwest can move competitively through a number of U.S. or Canadian ports. While the Department of Transportation estimates what the tonnage tax increase will "only" cost $1.47 per TEU for container traffic, one must keep in mind that for every 10,000 containers a carrier plans to handle at a port each year, it will spend an additional $14,700 simply for choosing a U.S. over a Canadian port.

Taxes on trade are regressive—taxes cannot be collected on commodities that are not being shipped internationally because they have been priced out of foreign markets or are escaping U.S. taxes by moving across the border to Canadian ports. Not

only do our northern tier ports lose cargo to Canada, but, from a national perspective, the projected tax revenue is lost to the U.S. Treasury; cargo which could move efficiently by water is instead imposing a further load on our already overburdened highways and bridges. Worst of all, these taxes are a disincentive to export. Trade taxes, unlike Customs duties, cannot be considered as a "cost of doing business." These taxes undercut our competitiveness in the international marketplace at a time when we should instead be expanding our trade horizons.

Bulk commodities, such as agricultural products and coal, are particularly sensitive to increases in transportation costs. Literally pennies a bushel (for wheat) or a ton (for coal) can make or break a sale in international markets for these U.S. exports. If the transportation cost for shipping these commodities continues to increase due to federal taxes on trade, we may see the U.S. trade deficit increase dramatically.

Cruise operations also make a significant contribution to the U.S. economy. A recent study performed by Price Waterhouse on behalf of the International Council of Cruise Lines, the cruise industry generates more than $14.5 billion in U.S. wages and $6.3 billion in domestic tax revenues, based on 1992 expenditures. The study projects an additional $4.3 billion in wages and $1.9 billion in taxes by 1996, based on an estimated growth of 6.8 percent. The industry currently provides 450,166 U.S. jobs and is expected to add 134,712 full-time jobs to the U.S. economy in the next four years.

With regard to cruise operations, many cruise ports are situated close to foreign ports which also offer cruise passenger services. In order to avoid the application of the additional tax, a vessel owner could easily drop the U.S. port of call and embark passengers at the nearby foreign port. For example, cruise passengers that might otherwise use a Florida port could fly to a Caribbean port for embarkation. Cruise ports have made significant investments of public funds in the physical landside facilities which support cruise calls. Those public funds would be wasted and significant economic benefits to the local and regional economies would be lost if we drive the passenger cruise business offshore with increased taxes. The cruise industry has already been burdened with a significant share of the cost of the North American Free Trade Agreement (NAFTA). In order to offset tariff losses from the passage of NAFTA, last year Congress increased, from $5.00 to $6.50 the Customs processing fee paid by air and sea passengers and eliminated the exemption for passengers arriving from Canada, Mexico and the Caribbean.

After numerous trade tax increases were adopted in the 1990 budget agreement, AAPA helped found the Trade Taxes Group, a coalition of shippers, carriers, commodity groups and other entities interested in waterborne commerce. Two years ago, the Trade Taxes Group came before the House Merchant Marine and Fisheries Committee to express our concerns about the danger of increasing taxes on trade. At that time, no one knew the number of taxes, fees or assessments levied on maritime commerce or the amount of fees collected.

The Committee asked the General Accounting Office (GAO) to prepare a baseline study of federal taxes on maritime trade. The GAO study, issued March of 1993, identified twelve federal agencies levying a total of 117 diverse assessments for total collections of $11.9 billion in fiscal year 1991. Eighty-nine percent of these collections go directly to the General Fund of the U.S. Treasury. Only eleven percent reimburse the agency providing the service or generate a port-related trust fund.

Maritime commerce and cruise operations already bear a heavy burden of taxes on trade, and should not have to shoulder this new burden as well. Bulk and cruise operators would be particularly hard hit, yet would not receive any benefit from the new program. Again, while U.S. ports do strongly support the Administration's shipbuilding and maritime revitalization programs, we urge Congress look to alternative sources of funds to offset the expense of the Maritime Security Fleet.

Thank you for your consideration of our views.

Prepared Statement of Peter Friedmann, Counsel, American Forest & Paper Association

These comments constitute the response of the American Forest & Paper Association (hereinafter "AF&PA") to the so-called "tonnage tax" provisions of S. 1945, the Maritime Administration Authorization Act for Fiscal Year (FY-1995). S. 1945 would raise the current commercial vessel tonnage tax by approximately 1 50 percent in order to provide $1 billion in government subsidies for the operation of 52 U.S. liner vessels over the next 10 years.

STATEMENT OF INTEREST

These comments are submitted on behalf of the American Forest & Paper Association ("AF&PA"), the national organization of the pulp, paper and forest products industry. AF&PA represents more than 7 percent of U.S. manufacturing output. The industry is among the top 10 manufacturing employers in 46 states, with an annual labor cost of $46 billion. The U.S. Department of Agriculture estimates that $1.8 billion of U.S. forest products are exported annually. AF&PA members conduct operations in all states of the Union and are substantial users of ocean common carriers in international transportation.

AF&PA members utilize the services of both liner and bulk carriers. For this reason, AF&PA and its members, as major shippers, have a substantial interest in S. 1945.

AF&PA OPPOSES FUNDING MECHANISM

AF&PA is strongly opposed to S. 1945 because it would significantly increase the cost of exporting U.S. forest products. AF&PA takes no position on the underlying intent of S. 1945, that of subsidizing the 52 liner vessels which comprise the U.S.-flag container fleet. It is the funding mechanism, the increased vessel tonnage tax, with which we must take issue, and which we will address herein.

IMPACT ON CONTAINERIZED VESSELS

The majority of forest products move on containerized liner vessels. if this legislation is enacted, the current tax on a forty-foot equivalent unit, or FEU, would increase $2.94. This may not seem like a significant increase, but on certain forest products, it could shut U.S. producers out of foreign markets, and significantly decrease our competitive edge in others.

IMPACT ON BULK VESSELS

Certain forest products, such as logs and wood chips, move not on containerized vessels but on bulk vessels. These low value commodities will not benefit from a U.S. containerized fleet, yet will be subsidizing one all the same. The impact of the increased vessel tonnage tax on low value commodities would be significant. For example, the tax on a 36,000 deadweight ton bulker is currently $5,130. As proposed, the tax on the same shipment would be $13,490, nearly three times as much as the current tax. This is a significant difference for a low-margin commodity, which will severely and detrimentally impact the ability of U.S. forest products manufacturers to maintain their overseas markets.

MORE HARM THAN GOOD

The problem with S. 1945 is that it subsidizes one U.S. industry at the expense of all others. The increased tax revenues will not come out of the pockets of foreign flag vessel operators (who make the overwhelming majority of U.S. port calls), but out of the pockets of U.S. exporters and importers. Coming on top of existing "trade taxes" (Harbor Maintenance Fee, Customs User Fee, Coast Guard inspection fees, etc.), this increased tax will particularly handicap U.S. exporters of high volume, low value commodities, such as forest products. U.S. forest products exporters cannot continue to absorb increasing trade taxes and continue to compete in international markets.

S. 1945 could cause cargo to be diverted from U.S. ports to foreign ports in Canada and Mexico, particularly where U.S. ports are in direct competition with nearby foreign ports. The assessment of a new tax on U.S. port calls will create an incentive for cargo diversion, thereby destroying U.S. port jobs.

Additionally, S. 1945 would discourage trade at a time when our nation needs more exports to help boost the economy. Because the bill would impose significant costs for many ship visits or divert them elsewhere, it would undermine our competitiveness with foreign exporters who do not have these costs, significantly reducing the ability of U.S. exports to compete in world markets.

S. 1945 would threaten the livelihoods of those whose goods must be shipped by these vessels, costing many more jobs in U.S. forest products, agriculture, coal, oil, and shipping industries than it could possibly save in the U.S. maritime industry.

A REAL HYPOCRISY

The Committee may be aware of legislation pending in both the House of Representatives and Senate, to end foreign shipbuilding/repair subsidies. The bills would impose draconian penalties, of up to $1 million per voyage, on ships built in

foreign subsidized yards, when calling on U.S. ports. AF&PA has submitted comments in opposition to S. 990 and H.R. 1402, also known as the "Gibbons Bill."

First, it is hypocritical for the same U.S. Congress to be considering legislation designed to end foreign shipyard subsidies, while at the very same time considering legislation to create new subsidies for our maritime industry. It is no wonder that the international shipbuilding subsidy negotiations have been unsuccessful thus far—with legislation pending to subsidize our maritime industry, the United States is hardly in a position to request other nations to cease their maritime subsidy practices.

Second, at least theoretically, we are contemplating imposing steep fines on foreign-flag vessels in protest of their shipbuilding subsidies, while also contemplating a significant tax on those same foreign-flag vessels to pay for our own subsidies.

Third, more practically, the penalties to be assessed on foreign-flag vessels under the Gibbons Bill, and the increased tonnage tax will ultimately be paid for by U.S. exporters and importers. So we would suffer twice—once to penalize foreign nations for their subsidies, and once to subsidize our own maritime industry. In order to remain competitive, U.S. exporters and importers cannot even afford to pay for one of these programs, much less both. And if we cannot compete abroad, there will be nothing to ship on any vessels, U.S. or foreign.

CONCLUSION

Increasing the vessel tonnage tax, as called for in S. 1945, would severely disadvantage U.S. forest product exporters trying to maintain their place in a very competitive world market. If Congress determines that maintaining a U.S.-flag containerized fleet is in our Nation's best interests, then any requisite subsidy should be paid by all taxpayers, perhaps by tapping the national defense budget.

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